



Challenge

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letters TO THE EDITOR

*Challenge invites your comments. Address letters to
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Sympathetic understanding

•My effort to promote an interest in reading CHALLENGE has been quite an experience. I wonder if it isn't characteristic of a vast majority of individuals to be more concerned with trying to acquire a dollar than in what constitutes a dollar or what one is worth.

At least CHALLENGE is stimulating. While reading each issue I could ask many questions, write reams qualifying a number of statements, and scold several authors for not being conscious of my ignorance.

Although H.B., in one or two statements, seemed whimsical enough to make me temporarily feel like retorting with considerable elaboration, I get no little satisfaction from the way in which the entire content is usually presented. It should promote more sympathetic understanding between "economists" and "noneconomists," providing CHALLENGE is read.

J. DAVID BECKLEY

Fairbury, Ill.

Subsidies and sustenance

•America's agricultural philosophy is way off base. The farmers' prices are low, so they are told, because they raise too much. To offset low

prices, they are told by agricultural colleges and farm leaders they must increase their yields with commercial fertilizers. This increases surpluses. Then political advisers advise subsidies and pay the farmer to grow surpluses for the government to store. The government finds its surplus piling up, so must sell its surplus on the same market that the farmer sells his free products. Thus the farmer ends up with government competition.

This costly, bureaucratic and socialistic program now takes 10 cents out of every taxpayer's dollar.

Our agricultural philosophy is unsound not only politically and economically, but it is unsound technically. In spite of having the finest production and harvesting machines, and the finest milling and baking equipment, we have the purest and poorest bread in the world. Rats cannot live and reproduce on the bread humans eat.

Dairy products are doctored up in their production, processing and preserving so that they no longer have their original qualities.

Poultry and livestock are stimulated so that they may reach the chain store supermarkets in record time. Fruits and vegetables are so doped with poisons that only the

hardest insects can live on them.

All foods must break down in the digestive process so that the body can assimilate what it needs. The body must also dispose of what it does not need. Yet in this modern day we must load ourselves with materials that the body can't throw off and foods that won't spoil if left on the shelf for years.

Is it any wonder that we are asked to give to the heart fund, the cancer fund, the polio fund, etc.? And, oh yes, we must work one day out of five for the government so that it can give the farmer a subsidy!

HARRY L. SPOONER

Peoria, Ill.

Worried about inflation

•I am worried about inflation, having experienced it in Germany.

I have some money in the bank and a substantial amount in life insurance. How can I best protect my money? In what should I invest it, if that is the answer? My hard-earned money is gradually depreciating.

Do you have a good book on the subject, or has the subject matter been discussed fully in one of your issues?

HENRY A. SPINDLER

Wood-Ridge, N. J.

While we share reader Spindler's concern about the depreciating dollar—and have carried a number of articles on the subject in Challenge—we obviously cannot give investment tips that would apply to any individual's special situation.—Ed.

Timely and informative

•I enjoyed my first copy of your magazine very much. It is timely

and quite informative. Would you please send a sample copy to [a friend of mine]. He is very interested in your magazine, and I do not wish to give up my own copy, for anyone.

HAL SAUNDERS

Kansas City, Mo.

"Skolded"

•You state that "The United Mine Workers pension fund is the only pension fund in the U.S. to which employees do not contribute." [CHALLENGE, April 1957, pages 44 and 79].

The American Radio Association has a plan in effect which pays retired members up to \$180 per month and is supported entirely by the employers, who pay into the fund a certain amount daily for each radio officer currently employed aboard any contract vessel.

Personally, I would like to see all pressure-group pension plans junked, including social security and state old-age plans, and replaced with a national Townsend-type plan to which everyone contributes through a sales tax of five to 10 per cent, and which benefits everyone upon reaching 65, regardless of need.

Such a plan would be a great sociological development, as well, in that huge sums of money would be pumped into low-income areas such as Mississippi and Puerto Rico.

ARTHUR R. SKOLD

Seattle, Wash.

We stand corrected, reader Skold, along with the article's author.

According to a report published recently by Industrial Relations Council, Inc., 25.4 per cent of all pension plans in the United States are noncontributory (on the part of employees).—Ed.

a personal note

from the editor

*some reflections on the pace
of events in the summertime*

ANYTHING is likely to happen on a summer's day, particularly on a hot summer's day. For example, a man goes to the beach to cool off, only to find the ocean breeze so stiff that he has to keep his shirt on. The traffic is light going out, but coming back into the city proves to be such a chore that his car's radiator boils over. So he gets his suntan on the highway while waiting for the engine's temperature to fall. By the time he gets going again, the sun is setting. His friends and neighbors conclude, from the lateness of his return and the ruddiness of his complexion, that the day at the beach has been a complete success, which in fact it was not. And to top it all off, he must speak nothing but good of the uncomfortable day, for he dares not admit that he misjudged conditions at the beach or the working order of his "trusty" vehicle. Fortunately, he can count on the sympathetic silence of his family to sustain his ego.

Let us say that our man is contemplative by nature, and in the stillness of the night, while waiting for sleep to carry him off into the next summer's day, he begins to turn over in his mind the curious twists and surprises of the past eighteen hours. Why is it that during any other season of the year things are more predictable? Or do they merely *seem* to be more predictable? Are we so preoccupied by the discomfort and induced lethargy of the heat that we are caught off guard by circumstances which at any other time of year would be accepted as normal and ordinary?

The problem begins to assume earth-shaking proportions for our man, if only because his bedroom is not air conditioned and he cannot fall asleep. Three weeks before summer officially began, he tells himself, Don Bowden became the first American to run a mile in less than four minutes. It was a most unexpected feat, and it should have been a tip-off of the surprising things to come. See what has happened to the automobile market and the New York Yankees? Neither has run according to the predictions of last spring. Car sales are still in the

doldrums, and the expected Yankee walkaway with the pennant is still a race with the White Sox. That brings to mind the city of Chicago, which has always been famous for its big fire and winds. This summer all the talk in Chicago is about the big rain.

Nothing seems to run true to form. In the nation's capital the Congressional fever for economy has been broken, of all things, by 95-degree temperatures. Now Senators and Congressmen are complaining that the President is *not* spending enough of the funds that Congress has made available. The Atomic Energy Commission, which is usually more close-mouthed than the proverbial clam, is willing to admit that one of its atomic devices has failed to go off. The Air Force, which has been fighting the persistent rumors of unidentified flying objects, sends out a bulletin that two unidentified objects travelling about 2,000 miles per hour have been picked up on a radar screen at a military installation.

And what is a man to think of Althea Gibson, the girl from Harlem who turned out to be the only individual American performer to win at the Wimbledon tennis jousts? She received a victor's welcome upon her return to this country; while simultaneously in Washington the Senate was warming up for a great debate over civil rights legislation admittedly designed to protect the Negro's right to first-class citizenship. How incongruous it must seem to other peoples that a nation which has an Althea Gibson must "debate" civil rights. Can the history of many summers be altered by one summer's debate?

But anything is possible in the summertime. Look at the way the Russians are acting. It is true that their political demeanor is as changeable as the temperament of a Dostoevsky character. But during the record-breaking hot spell in London, the Russians have acted as though they really would like an agreement on disarmament. Who knows? Of course, it might be that they are more interested in the West German elections than in disarmament. A man cannot count on much this time of year. Ask Bulganin. One of his ex-pals, Malenkov by name, was recently exiled to points so far east that he almost landed in Peiping, where Comrade Mao every day blows hot and cold on the issue of whether criticism can be tolerated within the Communist world. The way Malenkov sees it, this is no time for academic discourses. Things have been too hot for him.

That's the way it goes in the summertime. There are days when it just doesn't pay to get out of bed. I wonder if tomorrow will be a good day to go to the beach?—H.B.



Challenge Notes

Inflation: looking for the cause behind the symptoms

THE DEBATE about inflation continues unabated and so, apparently, does the continued upward movement of prices and interest rates. Depending on whom you listen to, the "villain" is: (1) wages which, according to the Department of Labor, have risen faster than productivity; (2) the high level of government spending which makes the government compete for scarce capital resources; and (3) "special gimmicks" which, according to Dr. Edwin G. Nourse who is a former Chairman of the Council of Economic Advisors, provide artificial "floors" for prices and wages.

Each of these "villains" must, of course, bear part of the blame. Indeed, it is a healthy thing that there should be so much discussion of a topic which has, until recently, been rather neglected.

But aren't we perhaps paying too much attention to symptoms, and not enough to causes? To say

that wages, or government spending, or "special gimmicks" are responsible for the current inflation is a little like saying that red spots are the cause of measles. For these things are themselves a reflection of more basic changes in the very *organization* of our economy.

The question that bothers economists is this: Is it possible for a society like ours, characterized by big business, big labor and big government to exist without a certain degree of inflation? Can prices and wages go anywhere but up in an economy in which they are no longer free to adjust themselves to short-range market changes? Today, wages and prices are set over extended periods of time by industry-wide collective bargaining contracts and long-range corporate policy planning.

Under these conditions, many experts believe, inflation is here to stay. They point out that in a society committed to a policy of

"full employment," government will do everything within its power to prevent economic activity from falling below a certain level. At the same time, in an era of big business and big labor, wage and price reductions are no longer possible ways of adjusting to a decline in economic demand. A "monetary" deflation—that is, one in which wages and prices fall at about the same rate—is thus no longer possible, while a "real" deflation (a cutback in employment and production) will be avoided at all costs.

"Unavoidable" inflation?

BUT IF society is committed to the prevention of deflation, can inflation be avoided? Many economists think that it can not. And many union leaders and businessmen apparently share this conviction, as witness the proliferation of "special gimmicks" (escalator clauses in wage contracts, variable annuities, and so forth) designed to protect incomes against inflation. After all, if the originators of such gimmicks had faith in the future stability of the dollar, such devices would not be deemed necessary. If they are right, moreover,—if we really are in for a period of continuous inflation—then they are doing the only sensible thing, and cannot be blamed for adjusting to the inevitable.

But we do not think that "mild" inflation is inevitable, although inflationary pressures, both social and economic, are admittedly much more powerful today than they were 50 years ago. Of course, if a choice had to be made between mild inflation and mass employment, we would choose mild inflation any day.

We are not at all convinced, however, that price stability can be bought only at the cost of unemployment. Economists have learned a good deal about the business cycle in the last 20 years. One thing they have learned is that "little" booms and busts in certain sectors of the economy (housing, for example) need not synchronize with, and become part of, big booms and bust in the general economy. Intelligent economic planning by unions in their wage policies, by business in its investment policies and by government in its credit policies could, we think, provide us with relative price stability. In fact the post-war years have, until recently, been remarkably stable, considering the pressure of defense needs.

While we can no longer count upon "automatic" stabilization of prices and wages in a competitive market, this does not mean that we should throw in the sponge and adjust to "inevitable" inflation. Only a defeatist attitude will make it so.—M.K.

the

common

market

by Robert Mossé

The six Schumann Plan nations look to the day when the tariff
and other barriers separating them will fall

THE European Economic Community is today somewhere between conception and birth, if we may characterize as conception the signing of the EEC Treaty by the Premiers of the six countries concerned.

Signatures were appended in Rome last March. The Parliaments of France and West Germany have already ratified the treaty, and I shall be very much surprised if the others (Italy, Belgium, the Netherlands and Luxembourg) do not follow suit before the end of the year. If this optimism is justified, the gestation period of the community will have been almost human.

Europe is accepting very calmly this exciting and revolutionary event. The member countries are, of course, concerned with obtaining maximum advantages and suffering minimum disadvantages

from the new system. But everyone can see the prospect of a level of well-being unattainable in a fragmented continent. A better life *can* be negotiated.

The European Economic Community, insofar as it becomes a real community, will be a tremendous new factor in the world. It will comprise more than 200 million people, including those of the overseas territories of France, Belgium and Italy. Its resources in skills, industrial equipment, territorial extent and raw materials will make it a true third force, capable of existing on a basis of equality in a world of giants like the United States and the Soviet Union. Its highly developed populations have a particularly high potentiality.

The EEC is evolving out of a six-member supranational structure that had its first physical ex-

pression in the European Coal and Steel Community. Then came Euratom, with its provisions for a pooling of efforts for nuclear energy production. The Rome treaty provides for the eventual merging of the assemblies of these three communities—EEC, ECSC and Euratom—into one assembly of one community, one and, hopefully, indivisible. In all cases the same six nations are concerned.

The basic idea of the EEC is the establishment of a common market—a goal that is as easy to conceive as it is difficult to attain. The ideal was to permit raw materials, products, men and money to move about freely in this new community. There would be no customs duties or other obstacles in the way, just as there are none between California and New York, and North Dakota and Texas. How close to this ideal will the EEC come?

The 248 articles and additional agreements of the Rome treaty call for (1) a common market; (2) a set of common economic and political policies; and (3) supranational structures to carry out the provisions.

The Common Market. While a giant step forward, the treaty is a frank admission that additional

Robert Mossé, Professor of Economics at the University of Grenoble, has represented the French government at several important international economic conferences.

steps will be necessary before the common market ideal is reached. The treaty does envisage complete freedom for the movement of goods and current money payments within 15 years. The movement of labor and capital, however, will be freer, but not completely free.

Even the provision for the free flow of goods, regarded as the most easily realizable, will be implemented slowly. Tariffs within the EEC will be reduced by about 10 per cent every 18 months. A member nation can be permitted a slower adaption pace over a short period, but it must bow to an iron mathematical law written into the treaty. The provision says that duties must have been reduced by at least 25 per cent on each good at the end of the sixth year. Thus, laggard goods requiring more protection than the average will not be permitted to fall too far to the rear.

Quotas will move upward at about the same pace that tariffs move downward. Import ceilings will thus have been phased out of existence after 15 years.

Labor's freedom has an important—if painful to the individual worker—restriction. A worker will be able to cross borders in quest of a job only if he has one waiting for him. The unemployed worker is locked in his homeland so that unemployment cannot be

exported from one member country to another. It was inevitable that labor's representatives in some countries would insist on such protection.

Important distinction

The treaty makes an important distinction between money used to pay for goods and capital. Current transactions will be free by the end of the sixth year, according to the treaty provisions. By then, a Frenchman interested in buying German or Belgium goods will be able to get the foreign currency to pay for his purchase without trouble. But the German or Belgian investor will not be allowed to transfer capital to France for the purpose of establishing an equity in French industry—at least not under the terms of the treaty. While the governments do pledge themselves to work for the eventual elimination of such restrictions on capital, the treaty contains no deadline.

There are certain other exceptions to the common market conception, particularly in relation to agriculture. The Rome meeting admitted this by refusing to settle detailed agricultural policies—providing for a future conference to wrestle with these.

Announced objectives for the meeting will include a reasonable income level for European farm populations, despite uneconomic

agricultural practices, and the maintenance of a sufficient supply of home-grown foods and the avoidance of agricultural price declines. For, a common market that was as common as it claimed to be would result in painful competition among continental producers of varying efficiency, who would also have to deal with even more efficient overseas producers. While the principles of the common market and "agricultural home defense" are logically irreconcilable, a pragmatic solution could come out of an agreement that violates the purity of the common market conception and yet forces some agricultural adjustments.

Common Economic and Political Policies. The EEC will inevitably create a new series of political problems. The negotiations projected for the agricultural question reflect the political pressures from Europe's farms. Labor legislation will also require extensive readjustments.

French and German labor policies today are excellent examples of some of the difficulties standing in the way of such readjustments. Thus, French employers pay overtime after the 40th weekly working hour; the Germans after the 48th. French industry's social supplements come to 45 per cent of the wage bill—including social security payments, accident insurance, family allowances, the three-week

paid vacation and vocational training. Clearly, French employers would be handicapped if other countries persisted in keeping social charges significantly lower. EEC members plan to harmonize their labor legislation but the action itself will produce disharmonies. The pressure will probably be strongest in the direction of higher social benefits for other countries, although employers there will surely resist strenuously.

Other common chords will be easier to strike. Agreement in principle has been reached on a European social fund for those workers displaced as a result of more efficient industrial operations and the decline of uneconomic home industries. The fund would pay half the costs of unemployment benefits, training expenses, and travel and resettlement allowances for the shifted workers.

Marginal victims

It is also proposed to create an investment bank with an original capital of one billion dollars to finance new industries as replacements for the marginal victims of increased competition. Contribution shares would be 28 per cent from France, Western Germany and Italy, 7.9 per cent from Belgium and the Netherlands and 0.2 per cent from Luxembourg.

But the creation of such a bank will not obscure divergences on

larger financial issues. Each country shows no haste in the direction of yielding control over its monetary policies. For these policies reflect profound differences in the economic structure of the member nations.

New Supranational Structures. The EEC government will include a Council of Ministers as policy executive, with a nine-member Commission for day-to-day administration, an Assembly with 142 members, a Supreme Court and advisory economic and social committees.

The distance between aims and realities may be illustrated by recalling a speech given by Sir Winston Churchill in The Hague in 1948. He called upon Western Europe to unite. Other countries heeded that prophetic exhortation better than his own.

The British Commonwealth was the indigestible element. The EEC will have enough trouble integrating the overseas lands of France, Belgium and Italy. Great Britain is understandably stubborn about maintaining its Commonwealth system. It seems likely that a new formula will be devised to establish reciprocal preferential treatment between the EEC and the sterling area.

The most optimistic community partisan must admit that the EEC will not be a laissez-faire economy. Its position vis-a-vis the rest of

the world must be on the realistic terms by which the rest of the world lives—tariffs, quotas and all other restrictions. Within the EEC, Europeans, who are accustomed to seeing their governments intervene in economic affairs, can expect to have more planning rather than less.

United States policy is in favor of the EEC on general principles, but that does not prevent the expression of concern over certain inevitable results of the union. Latin America is openly articulating its fears. A common market for Europe could easily hurt the Americas. It could set external tariffs that would reduce, for instance, Argentine meat exports to its members.

But the level planned for the external EEC tariff is very reasonable. The EEC members thus recognize their responsibility toward the rest of the world. This spirit promises well for the future.

The United States, leader of a powerful New World, has nevertheless felt impelled to assist this calling of the Old World into better order so as to redress the balance of both worlds. Its government is acting despite obvious

dangers in domestic politics. Even a reasonable tariff of the EEC will appear unreasonable to an American exporter if the EEC duty is greater than the old national tariff he had to contend with. His outcries will have much greater force than the quiet satisfaction of another exporter who finds the new situation advantageous.

But the change promises a much greater effect than mere tariff policy. The EEC members, if the EEC fulfills its promise, will be much stronger economically and politically. The EEC could take on more of the characteristics of an economic rival and diplomatic naysayer to the United States. American policy, however, is based on the firm assumption that the advantages in terms of world well-being and stability far outweigh disadvantages.

Any major world effort to effect a major improvement is bound to cause major discomfort. An indication of the problems attending the EEC is surely no reflection on its justification for existence. The reality of the problems cast up by the community prove that this dream of European unity has become a firm reality, too. ■

That's the Trouble

A NEW STUDY to be issued by the Twentieth Century Fund reports that in an emergency the United States could supply the world market with almost all the commodities usually exported by the United Kingdom, Germany, France and half a dozen other industrially developed countries.



The Social Sciences

The study of man in all his aspects will develop new precisions and help us better to understand the society in which we live

AMERICA 1975

SERIES

by Sidney Schoeffler

THE PREDICTION of human behavior is a notoriously hazardous undertaking; but predicting the direction of human thought is even more hazardous. Thought, since it is a creative and innovative activity, is by its very definition beyond the scope of mechanical extrapolation and the various other tools for prediction. Nevertheless, it does seem possible today, in 1957, to make some assertions about the state of the social sciences in 1975, and to make these assertions with a fair degree of confidence.

Nineteen hundred and seventy-five is 18 years away. While a period of 18 years is quite a long one from many points of view, it is but a moment in the long history of human thought. Major ideas, major techniques of reasoning and of analysis, and major institutions of thought usually take generations to become established

and generations to die out. It can be safely predicted, therefore, that the coming transformation in the social sciences—and a transformation it will be—will not, by 1975, amount to a revolutionary or cataclysmic overturn. Rather, it will be in the nature of a continuation of a group of tendencies that are already under way today.

The social sciences in 1975 will have a considerably enhanced power of accomplishment. They will be able to make accurate forecasts of such aggregates as national income; they will prescribe efficacious social policies and furnish reliable counsel to corporations and other institutions; and they will be able to teach all those who want to be taught a useful understanding of society and its ways. By 1975, the social sciences will have come a long way toward earning the respect and the confidence of the entire scholarly world

and, indeed, of all mankind. Perhaps even—although it seems too much to hope for—bright young lads will begin to grow up with the dream of becoming famous economists or sociologists, in the same way that today they aspire to be nuclear physicists and engineers.

Dismaying spectacle

It is, of course, only too obvious that this picture of the future of social science is in rather sharp contrast to the situation as it exists currently. Today, social science cannot do well any of the things mentioned in the preceding paragraph. Instead, we often see the rather dismaying spectacle of the “experts” disagreeing among themselves—sometimes to the extent of 180 degrees—about forecast, social policy, counsel to an organization, or interpretation of social phenomena. The outsider may well wonder, as he often does, whether *any* of the “experts” is really trustworthy.

There are many reasons for the current confused state of the social sciences. Some are the result of the force of circumstances; others stem from a rather unfortunate tradition within the social sciences themselves.

By “force of circumstances” I mean that in the conduct of our private and public affairs, forecasts *must* be made, policies *must* be adopted, and interpretations of

social phenomena *must* be carried out. The social scientist usually tries to be helpful; and in doing so he often commits himself, like the medieval alchemist, to a task for which neither he nor his science is yet ready.

This premature striving for usefulness and for application has had at least three unfortunate by-products. First, it absorbed so much of the time and energies of social scientists that not enough time and energy were left over for the more prosaic but indispensable work on fundamentals. Second, it has seduced many social scientists away from the task of developing their own tools of thought and pushed them into the easier and quicker course of simply taking over the methods of analysis that have proved to be successful in the natural sciences. Thus, they used the infinitesimal calculus, the techniques of model construction, or the systems of classification, which didn't really fit the entirely different requirements of social science. Finally, this striving for “usefulness” has brought the whole enterprise into considerable and regrettable disrepute. Thus, the excessive eagerness for accomplishment has reduced actual power of accomplishment.

Sidney Schoeffler, Research Consultant with General Electric Company, is author of the book, *The Failures of Economics*.

But certain traditions in the social sciences themselves have also hindered progress. As examples, we might refer to the tradition strongest in the field of economics, of working with "theories" that bear only a casual resemblance to reality; to the tradition, again strongest in economics, of limiting analysis to the rather artificially selected aspects of the "world," while forgetting all others; and to the tradition, strongest in political science and sociology, of speculating and "philosophizing" about matters that can be investigated empirically.

My optimism about the status of social science in 1975 stems from the conviction that these drags upon progress are steadily diminishing in scope and are being replaced by a new set of orientations and practices that will bring about a rather different and highly promising direction of development in the future.

Beneficial by-product

What are these new orientations and practices?

First, and perhaps most important, there is a growing appreciation that the social sciences *are* capable, if properly understood, of performing valuable service in the formulation of intelligent public and private policy. People are beginning to learn to ask the right questions of the right parties;

and they are learning to use the answers wisely, without jumping to unwarranted conclusions and without ignoring significant information. The military, some leading corporations, the federal government and other groups are beginning to put specific, concrete and *limited* challenges to the social sciences—of the kind that they are fully able to handle—and use the answers so obtained for purposes of policy formation. Also, as a beneficial byproduct of this trend, more and more social scientists are cutting their professional eyeteeth on soluble and useful problems.

Second, there is beginning to develop, within the social sciences, a group of special-purpose disciplines which, through the use of modern scientific methods and their own specially tailored tools of analysis applied to limited fields, are able to enlarge our understanding of certain well-defined phenomena. Such disciplines as, say, the learning theory in psychology, input-output analysis in economics, the theory of games in decision theory, small-group theory in sociology, and many others are today in a state of very rapid development. Their accomplishments, taken *separately*, may not be overly impressive in terms of effective policy guidance, but taken *together* they are beginning to add up to something quite substantial. There already exists a field of

study, most frequently called "management science," which seeks to synthesize the findings of various disciplines and provide a solution to such management problems as, say, the best location of warehouses or the best structure of prices.

Third, we are beginning to develop the *tools of observation* and the *tools of logic* required for the further growth of social science. For the same reason that astronomy profited from the telescope and biology profited from radioactive tracers, the social sciences will benefit considerably from such newly developing tools of social observation as sampling methods, projective tests and index numbers. As for tools of logic, the social sciences, because of the immense complexity of their subject matter, require them urgently. The modern electronic computers, therefore, will prove to be a real boon. To gain an appreciation of how powerful these new tools of logic are, and of what could come from their use, we might note that the so-called Project Stretch Computer, under design by IBM for the Atomic Energy Commission, is expected to be able to perform 100 billion arithmetical operations a day.

Finally, we are beginning to develop the techniques of *using* the new empirical generalizations, the new theories, the new methods of

observation and the new tools of logic in an integrated way toward the solution of "problems" and toward the better understanding of complex phenomena.

As yet, these new developments are still fragmentary and not very well integrated with one another. While social science is already scoring an increasing number of isolated "victories," the main body of thought is still in the traditional doldrums. The prevailing trends, glacial as they may be, do seem, however, to work in the direction of a "new order" in the social sciences.

Dual grouping

The social sciences in 1975 will have progressed considerably toward a dual grouping between *discovery disciplines* and *application disciplines*. The discovery disciplines will derive their orientation from specific subjects of study; they will strive for the discovery of facts and of regularities ("laws") in the flux of social events. The application disciplines, in contrast, will derive their orientation from specific problems; they will strive for techniques of solving particular classes of such problems. In other words, the social sciences will come to assume the structure that the physical and the medical sciences have assumed already.

But while the coming "new

order" in the social sciences will bear a family resemblance to the structure of the physical and medical sciences, it will also reflect the peculiar nature of social problems and of social realities. The discovery disciplines will probably be more specific and limited in scope, since far-sweeping general regularities apparently are quite scarce in the domain of human affairs. The application disciplines will, therefore, need to place more stress on techniques of problem-specification and on techniques of integration of the findings of the discovery disciplines.

In closing, we might hazard a guess about the identity of the emerging discovery and application disciplines. Here, again, we can project into the future the trends that are visible on the scene today. The discovery disciplines will almost certainly include studies of the gross behavior of individuals, of groups and of organizational structures; and also studies of such "interactional" processes as

competition, information and opinion diffusion, mating and "natural selection" of types of organizations, people or cultures. The application disciplines will probably develop out of what is called management science and public administration today, and may include such fields as "systems design" (where a system is an organization of people and machines linked up with one another so as to accomplish a designated task), "systems synthesis" (dealing with the skills required in creating such systems), and perhaps "systems pathology." And the more special-purpose application disciplines might include such fields as public order and safety, entertainment and, perhaps, public mental health.

There is every reason to believe that this emerging new structure will, even by 1975, have the same beneficial effect on the power of accomplishment of the social sciences that it has already had on that of the physical and mental sciences. ■

Nothing New Under the Sun

THE SHOPPING CENTER, it seems, is not as American as we have been led to believe. Professors Richard Stillwell and Erik Sjoqvist have unearthed a split-level shopping center built on a "grandiose" scale that served Greek housewives some 22 centuries ago. The commercial center was a market place for a city with population estimated at 30,000. It included an elaborate civic building and an imposing flight of stairs that connected the two levels of the center and probably doubled as a gallery for large public assemblies. The structure was never completed, however. It fell into decay and formed the foundation on which the Romans built a town a century later.



AMERICA 1975

SERIES

The Summation

Assessing the predictions
and assaying the problems

by Martin Kessler

FOR more than a year and a half, CHALLENGE has carried a series of articles in which experts in various fields have speculated widely (but not, we hope, wildly) about the kind of America we shall be living in two decades from now. While these are expert speculations based upon the most reliable data available, they are, still, speculations. Prophecy, after all, is an art, not a science. All that the prophet can do is look at the historical trends, speculate upon developments that *might* change these trends and then make an educated guess about the shape of things to come.

This does not mean, however, that speculating about 1975 is a waste of time. For, while the experts can no more "predict" the future than anyone else, they can at least present us with genuine possibilities. What do they see? What composite picture emerges

from their specialized visions of the American society of tomorrow?

One thing they see—and barring suicidal war, this is a virtual certainty—is more people. Even assuming that there will be a leveling off in our birth rates in the next seven or eight years, at which time our "war babies" will have reached child-bearing age, we can expect a population of at least 220 million by 1975. This is, in many respects, the most important prediction of all. For it means that more and more demands will be placed upon our resources and productive facilities. It means, also, that for the next 20 years, at least, a growing proportion of the population will depend upon a *relatively* smaller labor force to provide it with a rising standard of living. Not only are workers retiring earlier and living longer, but youngsters are entering the labor force later in order to meet the

ever-increasing educational demands of a highly complex society. Increasing the productivity of labor so as to enable it to provide a growing "nonproductive" population with a higher standard of living will, no doubt, be an important problem during the next 20 years.

On the whole, our experts are remarkably optimistic about the capacity of our economy to meet this challenge. The relative decline in the number of work hours spent to produce an ever-rising standard of living has been, they point out, one of the most distinctive aspects of America's industrial growth. While it is true that overall productivity has increased at an average rate of 2.1 per cent per annum since 1919, most experts believe that automation may considerably accelerate this rate of increase, at least in manufacturing. The replacement of the mass production assembly line, which is serviced by human beings, by automatic control systems serviced by machines, promises a revolution in production techniques whose social and economic consequences we can only guess at now; but that it will considerably increase our productive capacity few economists would seriously question.

Some economists worry about our ability to finance the automation revolution. Where, in an era of high taxation and diminishing

personal fortunes, will the money come from? Others worry about the possibility of unemployment as the "machine displaces the worker." To most observers, however, neither of these problems is too real, and for closely related reasons. First, more and more of industry's expansion is being financed by industry itself, through reinvestment of undistributed profits, or by institutional holders of savings such as insurance companies, pension funds, etc. Second, this kind of savings is not likely to be invested in automatic equipment so heavily that it would result in a drastic displacement of labor. While nobody would pretend that these are not important problems, a shortage of investment funds and chronic unemployment are not, in the opinion of our experts, going to be the big headaches of American industry during the next two decades.

Indeed, a brief run-down of some of the topics discussed by our experts—the city of the future, the union of the future, the corporation of tomorrow, etc.—reveals a remarkable unanimity upon one point: the problems of 1975 will no longer be primarily economic. Of course, not even the most optimistic prophet would claim that we shall have solved all our economic problems. Some Americans will still be living in poverty, ill-housed and ill-fed. But

for the vast majority of Americans, paradoxically, the big problem will be prosperity, not poverty.

Thus, John Diebold, one of the leading authorities on automation, pointed out in CHALLENGE that "the chief impact (of automation) will be social rather than technical, and education will be its major problem." And the education problem that Mr. Diebold is concerned with is not the much-advertised engineering shortage—indications are that the supply of engineers is finally adjusting itself to the rapidly expanded demand—but the problem of education for life in a society in which much of the productive work will be done by machines. Not only is work itself going to become more complex, though less physically demanding, but our basic attitudes towards work and play will have to be changed.

Four day week

Take the "problem" of leisure—a problem which an Indian farmer working from sunup to sundown would not comprehend. For Americans, however, it is a very big problem, indeed. It is not unthinkable that by 1975 most of us will be working only four days a week. That means that for almost half the week we shall have to *find* something to do. As Leonard Reissman pointed out in his article, most of us still engage in

leisure activities in much the same way that we go about our jobs. Thus, we pride ourselves on our "efficiency." In order to be better golf players we buy golf range-finders; in order to be more efficient fishermen we buy fishing reels that haul a fish in automatically. As in work, we emphasize the "productivity" of our leisure activity. We talk about the number of books we have read, the number of foreign countries we have visited and the extent of our participation in community affairs. Whether or not we really enjoy all this activity is difficult to say. Indeed, some psychologists believe that we feel a little guilty about the very idea of enjoying our leisure, a throwback to the Puritan notion that idleness is wicked. Clearly, we shall have to get over this attitude, or we are going to feel "wicked" three days a week.

The problem of leisure is only one symptom of the many changes that will have to take place in our attitude toward work and play, if we are going to be prosperous *and* happy. Not only shall we have to use time more creatively, but there is a lot more that we shall have to learn about intelligent consumption. Economist Wesley C. Mitchell once wrote a book on "The Backward Art of Spending Money." What Mitchell meant was that spending money is, perhaps,

the most difficult economic art of all—at least, for the fairly prosperous individual (or nation for that matter) with a wide variety of choices available.

What to buy

Of course, in America advertisers and sales organizations are only too happy to help the consumer “solve” this problem. Whether it is a new car, a South Sea cruise, a hi-fi set or a new swimming pool for the backyard, there are always interested advisors ready to convince the consumer that his happiness depends upon buying “more.” No one can deny that advertising has played a significant role in “educating” us to higher standards of living. But the interests of the advertiser and of the consumer are not necessarily the same. We cannot expect the advertiser to tell the consumer what to buy; he can only describe what the manufacturer has to offer. If, therefore, we find ourselves living in a slum although we are the proud possessors of a Cadillac, we have no one to blame but ourselves for this misallocation of our income.

What about the economy as a whole? Will industry and labor also have to grapple with the problem of success? In the opinion of our experts, they will. Thus, in his article on management in tomorrow's economy, Arthur S. Barron

predicts that the executive of the future will be less concerned with profits, which will be fairly secure, than with preserving his firm's identity as an institution. And unions, according to Professor Harold W. Davey in another article, will be so successful in their organizing and bargaining efforts that they will be interested in exerting an influence in other spheres of American life, such as politics and education.

Some business executives and labor union officials genuinely worry about this “institutionalization” of our economic life. Not only novelists and movie producers worry about the grey flannel suits in executive suite. Many prominent business executives, such as Crawford H. Greenewalt, President of Du Pont, and Robert S. McNamara, Vice President of Ford, have wondered out loud whether some of our big corporations are not losing out in their hunt for executive talent because of their over-eagerness to mold employees in the corporate image. If, in the years ahead, more and more emphasis is placed upon perpetuating corporations as institutions rather than as producers of specific products, will there be any place left for the “subversive” entrepreneur like Ford, Jay Gould, J. P. Morgan, etc.? The great economist Joseph A. Schumpeter predicted that capitalism could not survive because

its very success would eliminate the risk-taking entrepreneur from whom the capitalist system draws nourishment. While few contemporary economists would agree with Schumpeter that big business is incompatible with entrepreneurial ingenuity, few would deny that in a highly organized society like ours special attention must be paid to the nurturing of exceptional abilities in business and in other fields.

The increasing size and power of labor unions highlight another aspect of the "institutionalization" of economic life. If the Congressional investigation into the activities of Mr. Dave Beck of the Teamsters Union revealed anything, it was that in a labor union, as in any other large organization, a wide gap tends to develop between the leadership and the rank and file. Unless the leadership is made responsible to the rank and file and to the community at large, unscrupulous characters will invariably arise and take advantage of their position to enlarge their per-

sonal power and fortunes. But who, in a highly organized society like ours, has the power to regulate large organizations? The tendency here is to fall back upon the federal government. But how can this be done without adding to already extensive state powers?

We suggest that the big problems of 1975 will not revolve around the production of wealth, but upon our ability to enjoy and use that wealth creatively. The "poor little rich boy" (especially if he is a very big boy now) may not evoke much sympathy from the "poor little poor boy," but his problems are very real, nevertheless. If we are going to enjoy the rising incomes which the economists predict for us in 1975, we shall have to re-examine some of our basic notions about what constitutes a "good" life. For wealth is only a means to an end; and unless we are very clear about this end, the possession of more automobiles, refrigerators and bathtubs will not guarantee a happy life. ■

Tongue In Cheek To You, Too

APROPOS OF growing concern about the "over-eagerness to mold employees in the corporate image," the *Wall Street Journal* recently issued the following editorial "suggestion": . . . "among the many advantages of uniforms for work clothes—identification, advertising and general neatness of appearance—there's the little matter of tax advantage. Put on a uniform and the employer can furnish it as a tax deductible expense item. We suggest presidents of corporations adopt a uniform slate-gray blazer with three gold stars on the sleeve and the company seal stitched to the breast pocket. Executive vice presidents two stars. One star for just ordinary vice presidents."

Big government contracts mean insecurity as well as profits to industry



by Sam Shulsky

Peril Point in Defense Contracts?

AMERICA'S annual 18-billion-dollar order for tools of war pays off in currency recognized by banks and creditors. But the money carries with it an aura of unreality, and some defense industries are asking if it is not fool's gold.

Many companies would like to get into what seems a firmer reality to them—the world of private business. But others want more of the magic money of defense work.

In the four fiscal years ending June 30, 1958, it is estimated that total U.S. defense orders will have exceeded 50.7 billion dollars. Of this, some 34.3 billions, or 67.7 per cent, will have been placed with airplane, missile and electronics companies. Actual awards of government contracts since June, 1956 have been running at

an annual rate of 18 billion dollars.

The number of firms participating in defense business is not known. In the last year and a half, the nation's top 100 companies handled about 69 per cent of all government contracts, but estimates are that as many as 40,000 concerns share in the business when subcontractors are included.

Many enterprises are "defense babies"—that is, they grew up in wartime or during a period of defense build-up, were fed on government dollars, and today they know no other sustenance. Other companies entered the defense business to compensate for reduced profit margins on civilian business. Still others have found that, thanks to the government, they were able to undertake new research and development pro-

grams that would otherwise be out of the question. Defense orders, moreover, help tide them over slack seasons.

But what would happen to such industries if there were a sudden cessation of military orders? Take the case of aircraft. The Aircraft Industries Association of America admits that "defense business is the industry's livelihood." Should orders from the government be cut off, the Association adds, the aircraft industry would be badly hurt.

Drop in market values

Wall Street feels the same way, as witness the drop in stock market values of defense companies on the occasion of disarmament talks with the Reds and proposals for cuts in the U.S. arms budget.

A House subcommittee, digging into aircraft profits and costs, has reached the conclusion that "this is an industry which cannot survive, on a comparable scale, without military production."

Are these and allied industries worried by this dependence on their government?

One of the top executives of a Buck Rogers-type electronics corporation said bravely:

"Sure, we're practically 100 per cent dependent on government military orders, but we're not worried. As long as the U.S. wants to keep ahead of the rest of the

world in our specialty, it must continue to support our business."

Another firm with a comparable share of its products going to the military is Servomechanisms, Inc., which plans to increase the volume of its defense work.

"We feel," president William W. Shannon said, "that military business and, in particular, government-sponsored work in the field of complex automatic and electro-mechanical control instruments will increase in the years ahead."

Shannon saw no problem in case of a government cutback in electronics spending.

"The country's electronic know-how is largely being devoted to the military because of real and present security needs," he said. "When such needs cease, there is a wide-open civilian market for electronics."

But companies like General Dynamics Corp. are worried. Here is one of the most diversified companies engaged in defense production. Its sales last year were a whopping one billion dollars, with 15 per cent going to private customers and the balance to defense. Although its commercial business is still growing, wipe out the defense business or take away a big piece of it, and the result spells trouble.

General Dynamics' new top exec-

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utive, President Frank Pace, Jr., is one of those who believe that defense is a permanent business. One good reason why General Dynamics would like to stay in defense work is the low profit margin it operated on last year in its civilian activities.

All the same, Pace would like to see his company's present top-heavy ratio of 85 per cent defense to 15 per cent commercial business changed into a 50-50 ratio, which would make General Dynamics less dependent on fluctuating defense needs.

Stockholders' big stake

Or take the giant General Electric Company, probably the best-known household appliance label, which got one-fifth of last year's sales from the money provided by government defense "buyers."

Ralph Cordiner, GE president, points out that instead of relying entirely on the government for capital funds, "General Electric's own shareowners have invested several hundred million dollars in facilities and manpower for the defense business."

Thus the stockholders have a big stake in defense business. Whether they feel the business of making weapons will be an eternal one or that this source of orders will one day be restricted to periods of war build-up or actual conflict, many companies have taken steps to les-

sen the shock of defense business loss.

The escape hatch from government business lies in diversification. Not only have corporations deemed it advisable and profitable to diversify, but also to branch out in industries remote from their own. To start in a different field, a company must either set up an entirely new firm or a new division. The most popular method, however, has been merger or the outright purchase of a going civilian product company. Thus we have witnessed in the postwar years an unprecedented number of consolidations, mergers and purchases of corporations.

But some organizations are so bound to one industry that entrance into an alien field is just not sound business.

Hence, an enterprise almost wholly devoted to, say, the aircraft field, must constantly stay abreast of new developments in that area. United Aircraft Corp., for one, has been successful through diligent research in its field and by diversification.

United's sales in 1956 amounted to 952,885,142 dollars, with 86 per cent of this business placed by the U.S. government. At the end of the first quarter of 1957, government contracts, orders and letters of intent totaled two billion dollars.

While United has placed great

emphasis on commercial activities, its thinking is still directed largely toward providing defense with better and newer weapons, and it admittedly is seeking a bigger share of the government's defense dollar.

There are several inducements the government has to offer its suppliers. In addition to orders, it provides plants and tools in many instances. The top dozen aircraft firms doing government work turned out products for the U.S. with plants and equipment supplied by the federal government and valued at more than 895 million dollars. It must be remembered, too, that contracts include large salaries and often bonuses for top corporation officers.

Another enticement, according to an official of a research firm, is that defense work enables companies to do work which they could not do otherwise.

Drawbacks in doing military work? Perhaps the complaint most aired concerns the amount of red tape, but in reality, the main ob-

jection is the renegotiation of contracts. One manufacturer said:

"If you get seven per cent before taxes, consider yourself lucky. You'll be luckier still if they don't take that away from you."

Some companies claim they have suffered by doing business with the government. Koppers Co., which had sales last year of about 300 million dollars, ended its defense work last year and is concentrating on civilian business in the chemical, metal products, construction and engineering fields.

Somewhere between the all-out defense companies and those who want no part of it are those who believe a token share of the business is desirable. The feeling is that should a crisis or a shooting war develop, they would at least have the know-how and trained personnel ready for a fast change.

But the majority of industrial corporations think it is a good idea to stick with the defense business. The money continues to be more eloquent than occasional misgivings about the future. ■

Government Spending

IN 1953, according to a survey made for the National Science Foundation, commercial laboratories and nonprofit research institutes spent 85 million dollars in all the various facets of scientific research. The commercial laboratories spent approximately 39 million dollars for scientific and basic research. The figure for nonprofit research institutes was over 53 million for scientific and basic research. Industry, including related *defense* industries, was responsible for half the money spent in the commercial laboratories; the government picked up the rest of the tab. But the survey stated that the nonprofit institutes received twice as much from government as from industrial grants.

TO HARNESS THE *Atom.*



A NEW KIND OF HARDWARE

by Edward R. Trapnell

EXPERTS in the nuclear energy industry—a new and finely trained lot—will tell you that the big job now is to find metals or alloys that will withstand for a long time the stresses of high temperatures, high pressures, radiation bombardment and corrosive fluids, and yet be economical to install. In short, the full promise of the atomic age waits upon the solution of “plumbing” problems.

When the answers are found, America's place in the atomic age will be up front. The work is being done on a broad base, with industry and government agencies working together, and not with any intention of following one plan for the quick development of one type of reactor as a showcase gesture to the world. American industry is attempting to find out, by trying various reactor types,

the most practical methods of using fission energy to produce electric power at a reasonable cost.

Here, for instance, is a capsule glimpse of what the power reactor program looks like at the present time:

- Fourteen nuclear reactor projects are either being built or in the process of study—all recommended as possibly feasible by the Atomic Energy Commission—by 69 electric power companies and associated industries. Seven of these are either under construction or in the immediate preconstruction stage.

- These projects are destined to produce 1,500,000 kilowatts of electricity, or enough to supply a city of about a million persons. They are well-scattered over the country, with plants to be located in Pennsylvania, Illinois, Michi-

gan, California, Florida, Minnesota, North Carolina, Ohio, and the New England area.

- While we know how to generate electricity from the atom, various types of reactors have to be tried—the boiling-water type, the fast-breeder, the pressurized-water, sodium-graphite type, aqueous-homogeneous type and others—to find the most economical method of turning out a kilowatt of electricity from nuclear fuel.

About 400 million dollars of investor-owned company funds are earmarked for this undertaking, with no immediate prospect of a return. Many companies have invested heavily in atomic research programs, also without an immediate prospect of a return.

Supreme efforts

Why, then, have they done this?

First, the industries directly involved know that they must make supreme efforts to find the best application of this great new fuel. Any company that does not expend its energy and funds in the early stages of this development may find itself out of the running when the profit-making day comes.

But more important to the nation at large is the fact that we shall need nuclear fuels to supplement our supplies of other fuels. At present, 78.6 per cent of all electricity generated in the United States is produced by steam power

that is fired by coal, gas or oil. The remainder is produced by falling water. But the use of electric power is expanding at such a swift rate that we shall be using four times as much electricity in 1975 as we do now. We shall have to use nuclear fuels.

The first large commercial nuclear power plant in this country is scheduled to go into operation late this year at Shippingport, Pa. Designed by Westinghouse Electric Corporation under contract with the Atomic Energy Commission, it will be operated by the Duquesne Light Company and turn out 60,000 to 100,000 kilowatts. This will be the *only* large-scale nuclear power plant to go into operation in the United States before about 1960.

Why are we moving so slowly? One reason is the afore-mentioned "plumbing" and "hardware." The designers and builders are closeted with the metallurgists and chemists, developing systems, complete with heat exchangers, pressure heads, valves and pumps made of metals that will carry corrosive sodium-potassium liquids without ever leaking.

A reactor, after all, is simply a machine in which the atom is split

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and heat is produced under control. The heat produces steam, which turns the electric generators, and the rest of the electric plant remains essentially the same as it is today. Only the fuel and the firebox in which it is "burned" are different.

In changing the fuel and firebox, the engineers are working with new materials like beryllium and zirconium that will withstand both radiation and corrosion.

Basically, the problems are of two types: (1) those which arise in connection with fuel elements and other reactor parts of the nuclear reactor itself; and (2) those which arise in connection with conventional materials and components, such as carbon steels and stainless steels used in valves and heat exchangers.

Problem of repairs

In the conventional power station, a repair can be made quickly and easily if, for instance, a pipe springs a leak. Not so in a nuclear plant where radioactivity is involved. Not only the reactor, but allied equipment must be constructed so that it will operate for years without breakdowns, corrosive leaks or parts failures.

The basic job of the engineers, you might say, is to develop a nuclear reactor that practically runs itself. One engineer put it in this form of understatement: "The

lack of direct human attention to these plants is a fundamental necessity."

Experience shows radioactivity has a tendency to weaken materials. The choice of metals for all protective and structural materials inside the reactor is further complicated by the fact that some metals capture neutrons, and by doing so, tend to stop the reactor's basic chain reaction. The new tolerances and engineering processes which old hands in the boiler and machine shops are having to cope with in the nuclear age are strikingly illustrated in the making of a single nuclear reactor part—the reactor vessel.

Let us take the case of the Shippingport nuclear plant. The reactor vessel was put together with the heaviest-clad steel plate ever turned out by the Lukens Steel Company. Combustion Engineering, which put it together, developed special welding methods, machining, and heat-treating techniques, pioneering throughout. Accepted and time-honored formulas for determining stresses were not applicable because of the thickness of the plate and forgings involved.

In addition to anticipating the pressure and thermal stresses to which the vessel would be subject under start-up conditions, consideration had to be given to heat generation in the vessel wall which

would result from neutron and gamma ray flux provided by the nuclear fission process. This was ground over which boilermakers were going for the first time. New criteria and new formulas were being developed.

The reactor vessel was designed to withstand internal pressure of 2,500 pounds per square inch at 600 degrees *F*. At average load, 26 million pounds of primary coolant water will enter the vessel each hour through four inlet nozzles.

Weight of the vessel—an upright cylinder 40 feet high, with walls over eight inches thick—is 235 tons, with the vessel proper weighing 150 tons and the removable top 85 tons. The interior walls are clad with stainless steel.

The base metal of the reactor is manganese-molybdenum steel, which meets the minimum tensile-strength requirement of 80,000 pounds per square inch.

These are but a few of the details of the construction of the Shippingport reactor vessel. From its construction, a new “hardware” item has been added to the store of nuclear tools.

The lessons learned in the building of this reactor do not necessarily serve in the construction of many other types. Some of the studies begin all over again. But what we have learned about new materials and their fabrication applies to the plumbing and hard-

ware problems of other reactor types. The fast breeder reactor being sponsored by the Power Reactor Development Company, organized by Detroit Edison Company and 17 other utilities, is vastly different from the pressurized water reactor, but it demands materials capable of withstanding the same types of stress.

Besides the nuclear reactors, many advances are involved in other phases of the growing atomic energy industry, including nine uranium ore processing mills, a feed materials plant, five nuclear fuel element manufacturing plants, and three zirconium and two beryllium production facilities.

Uranium mining is also a whole new segment of the American economy. Only nine years ago 90 per cent of our uranium supply came from overseas. Today 60 per cent originates in North America. By 1958, this continent will be producing 80 per cent. All of our mines, and all but one of the processing mills, are privately financed and operated.

With this bright prospect of a new industry, competitively operated, the hardware and plumbing problems will be overcome.

As Chairman Lewis L. Strauss of the AEC recently reported to Congress: “The forces of traditional American free enterprise are moving forward on a broad front.” ■

A BUSINESSLIKE

Foreign Aid Program?

by Klaus Knorr

Substituting loans for grants will not change the fact
that economic assistance cannot be a business

BECAUSE there was such a hulabaloo this year over the size of the federal budget, foreign aid—so readily dubbed a giveaway program—was bound to become a favorite target of the budget slashers. Although the continuation of the program on a somewhat reduced basis was never in serious jeopardy, there remains a widespread feeling that we should change drastically our method of administering the program. Most conspicuous of these proposed changes is a large-scale shift from grants, tendered as gifts, to loans.

Such a shift is appealing on several counts. To the general public, it means chiefly that we will “get our money back.” But there are, in the opinion of many experts, other perhaps even more important benefits. Many aid-receiving countries prefer loans to gifts, either out of

a feeling of national pride or because they dislike the strings attached to grants. Above all, a shift from gifts to loans is expected to put assistance on a “businesslike” basis. If we offer loans rather than grants, we make it clear to ourselves as well as to the foreign recipients that money is scarce, that it should be used with care and that we are out to aid in the build-up of capital rather than to give relief.

However appealing these considerations may be, to adopt quickly this concept of foreign aid would be irresponsible unless we also consider its practicability and note any drawbacks that it possesses.

To begin with, how much of our existing foreign aid program *can* be financed through loans? Of the 3,767,000,000 dollars appropriated

for foreign aid in fiscal 1956-57, no less than 53 per cent was for strictly military assistance and another big 31 per cent was for "defense support." Of the remaining 16 per cent, 250 million dollars was for developmental assistance, 152 million dollars for technical cooperation and 100 million dollars for the President's contingency fund.

Clearly, most of our foreign aid is not economic aid at all. It is military aid which we give to some of our allies for the purpose of shoring up their defenses against possible aggression by the Sino-Soviet bloc. Now, loans to economically underdeveloped areas can be extended only on the assumption that these resources will increase the recipients' production by more than the exports needed for servicing the loans; otherwise they are of no benefit to the recipients. Since military assistance cannot yield such gains in productivity, it obviously should not be given in the form of loans. This means that unless we cut back military aid, about 80 per cent of our foreign aid program must remain in the form of grants.

Technical know-how

On the whole, the technical cooperation part of the program—which is intended to serve the dissemination of technical know-how by American technicians—has

very few critics. The consensus is that this kind of help, too, should be continued on a grant basis.

A varying proportion of the remaining funds is spent strictly or mainly for *political* purposes. We may want to strengthen our hand when it comes to bargaining for airfields or alliances; or we may want to bolster a friendly but tottering government, as we did when we gave 10 million dollars to King Hussein of Jordan in April. Some of our aid, especially shipments of surplus food, is given for relief—for instance, to help India cope with famine conditions in a poor crop year. Again, it would be unwise to extend the loan method to such transactions, for whenever the recipients' capacity to repay is feeble, loans would definitely fail to be businesslike.

This leaves a relatively small volume of strictly *economic* aid—that is, aid intended to help countries grow in productive capacity. Even if one adds to the foreign aid program the credits of the Export-Import Bank (which gave 197 million dollars in new credits in fiscal 1955-56), it is clear that strictly *economic* aid came to only about 500 million dollars in fiscal 1955-56; and that about three-fourths of this was, in fact, given in the form of loans.

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In view of this record, does the suggested shift from grants to loans merely serve as a maneuver to placate the general and uninformed public, as a new smoke-screen behind which the United States government will continue to pursue an old policy?

Enlarged program

For the most part, the answer is "no." What the President is now requesting from the Congress is funds for a program of *economic* aid for which annual appropriations will not be required and also funds for an *enlarged* program of economic aid to be administered by a development loan fund. Various citizens' committees—notably the International Development Advisory Board and the Committee for Economic Development—have come out with similar recommendations. Specifically, the following amounts are requested for the fiscal year 1957-58: military equipment and services, 1.9 billion dollars; defense support, 900 million dollars; development loan fund, 500 million dollars; technical cooperation program, 152 million dollars; nonmilitary programs, including peaceful use of the atom, 113 million dollars.

The development loan fund "could be used only for development projects and programs which seem technically and economically

sound and which could be expected to contribute to the economic progress of the borrowing country. . . ." As planned now, the appropriation of 500 million dollars will only start the development loan fund; the President is also requesting authority to borrow from the Treasury 750 million dollars in fiscal 1958-59 and another 750 million dollars in fiscal 1959-60 to add to it.

Whether the new program will permit development loans of a larger volume than the strictly economic aid so far extended from annually appropriated funds will depend on the ultimate size of the revolving fund and on the record of receipts from amortization and interest. If the annual rate of loans does not exceed the recent volume, the new program will be "new" chiefly in the sense that long-run commitments can be made. "Economic development," Secretary of State Dulles recently declared in defense of the development loan program, "is a long-term process. It is not an annual event. If our assistance is to be useful at all, it would be provided on a sustained basis that is consistent with the long-term nature of the job to be done."

This is a convincing argument, approved by most students of foreign aid operations. But the question still remains whether the change in method promises net

benefits. The arguments put forward by the proponents of loans are certainly strong, provided that the United States uses businesslike transactions only for businesslike purposes. On the other hand, a dollar loaned on a businesslike basis will not assist a foreign country's economic development as much as a dollar *granted* on a businesslike basis. In the first case, the borrower must pay interest and repay principal out of increased production before he achieves a net gain. In the second case, the entire increment in output is available for further investment or for boosting consumption.

There are other less obvious, yet no less important, drawbacks to regular development loans. It is difficult to make businesslike loans to economically backward areas. They usually suffer from a low rate of domestic savings, from a lack of private and public entrepreneurs with the right skill and motivations. They resist technological advance and all the variegated changes in traditional economic, cultural and social conditions which are necessary for economic progress.

Under such circumstances, the efficiency of investment decisions is bound to be erratic. Mistakes are an inevitable part of the learning process. Increases in productivity are subject to all kinds of vagaries (political upheavals, the

weather, unstable prices in the world's raw materials markets, etc.). Many investments in basic facilities will come to fruition only over a long period. And, with the underdeveloped areas' very low levels of consumption, their propensity to save out of increases in productivity is generally low. Therefore it is difficult to appraise the soundness of individual projects. Finally, the United States may find itself in a politically awkward position if it acts like a businesslike creditor toward debtor countries which encounter difficulties in discharging their obligations.

"Hard" or "soft" loans

These formidable problems raise the question of whether, in a great many cases, a straight grant is not the most realistic way of helping many underdeveloped countries to develop. If we mean "hard" loans, carrying a rate of interest reflecting the cost of capital in the United States, it is doubtful that there are many projects which the World Bank, the Export-Import Bank and private investors cannot finance. Indeed, Secretary Dulles intimated that the proposed Development Loan Fund will be in the business of extending "soft" loans rather than "hard" loans. Loans are soft when they are very long-term, perhaps with the repayment period beginning only after

three years, with low rates of interest, with generous provisions for deferring payments when the debtor is in difficulties and, above all, with debtor payments due, not in dollars, but in his own currency.

Thus a soft loan is a compound of a hard loan and a grant. The question is whether the compound combines more of the virtues or more of the vices of hard loans and straight grants. Among the main advantages of soft loans are that the United States provides itself with a very flexible instrument that can be adapted to the vastly differing conditions in the underdeveloped world; that the soft loan is less of a real burden on the borrowing country than a hard loan; and that many underdeveloped countries will prefer a soft loan to a grant which might bring with it politically unpalatable conditions.

But, clearly, a soft loan is not as businesslike as a hard loan. If serviced in local currencies, the hard currency capacity of the proposed development fund will quickly decline unless it is replenished by further borrowing from the Treasury. It will be difficult administratively to justify different degrees of "softness" in the loans given to different countries. Finally, how will the United States

dispose of the vast quantities of local currencies, not convertible into dollars, which it may collect in many parts of the world?

To the extent that we use these currencies for the purchase of raw materials or services needed by the United States, the soft loan approaches the character of a hard loan if we would otherwise have used dollars for these purchases. To the extent that we make development grants from these local currency proceeds, we will be turning the original loan into a gift. To the extent that we relend local currency funds for development purposes in the debtor country, we will be deferring repayment and will eventually gather an accumulating proportion of the country's money supply under United States control. In time, this will pose an awkward political problem and feed the propaganda of those who are prone to accuse the United States of imperialist designs.

Solving the problems raised by our foreign aid policy is not easy. It is all to the good if United States foreign aid policies remain flexible. But there is also a need for prudence lest we rush headlong into new policies which merely postpone the necessity of facing hard problems here and now. ■

Homing Instinct

MORE THAN 75 per cent of U.S. tourists in Europe come from nine states which have less than half the total population, but nearly 70 per cent of the foreign-born population.

small business and **BIG LABOR**

by Mitchell Gordon

The great unions are becoming more and more interested
in organizing the workers of small firms

ORGANIZED LABOR is concentrating more and more of its efforts on the employees of small business.

The drive to unionize these scattered workers is being intensified, paradoxically, both by labor's past successes and failures. The successes, won against the bigger firms which have been the principal targets of labor, have left unions with fewer large shops to organize. The failures, also experienced mainly against larger companies, have encouraged unions to look for small companies which might be relatively easier to organize.

As an official of the AFL-CIO United Automobile, Aircraft & Agricultural Implements Workers of America put it recently: "We take first things first. The company with 400 employees naturally means more to us, from the organi-

zational standpoint anyway, than the 20-man shop. But in the past couple of decades or so, we've pretty well organized the bigger shops—or got used to the idea that those we haven't organized were going to mean long sieges. Now we can start concentrating on the smaller firms."

But how about the small businessman who cannot compete with the bigger firms in investments for research, automation and mass merchandising? Can he hope to hold his own against his big competitors on this latest battleground?

Certainly his ability to pass on increased labor costs is unequal to that of his large competitors. "U.S. Steel can far more easily pass on a cost increase, and sometimes a little more than that, to its customers," says one small East Coast metals fabricator. "We have

a hard enough job just passing on U.S. Steel's higher prices, let alone increased labor costs of our own."

The small firm is also at a disadvantage at the bargaining table. As a general rule, it does not have the budget to keep industrial relations experts on its payroll. A jack-of-many-trades must dicker on increasingly complex matters with union representatives who do practically nothing else but bargain with employers.

What if the small businessman feels the union's demands are particularly unreasonable? What can he do about it? The big firm, through sheer size, may be able to exercise a voice in the formation of those demands through its employees. The union has to be fairly careful not to act in a way that would seriously prejudice that firm's ability to remain in business. Indeed, unions have gone along with employers in distress by permitting wage reductions. The Studebaker-Packard Corp. was a notable example. Seldom, however, are union demands tailored to fit the many special circumstances that affect small firms. Because the union is generally unfamiliar with the small company's peculiar circumstances, it may even look upon the objections of its few members who happen to be employees of that concern as the

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cavils of an employer-dominated work force.

The small businessman is even worse off, however, if he feels the union's demands are unreasonable when his employees are convinced they are reasonable. He must then face the very real possibility of a strike. But rare is the small firm that has the financial resources to fight a walkout. And even if it had those resources it couldn't hope to enlist public pressure as effectively as the large concern, whose labor force is much more likely to be an important factor in the area's general prosperity. As one small midwestern businessman puts it: "Who cares if my dozen or so employees go out on strike and stay out for months? It doesn't make the papers. There's no government investigation. And the union hardly notices the strike benefits it's paying out. It's only the small businessman who suffers."

The small businessman also stands to lose more business as a result of a labor dispute than his larger competitor. Many small firms win their customers by providing special services like putting special edges on steel rods. Once these customers are forced to go elsewhere, it is likely that many will either learn to do without or will have succeeded in getting new suppliers to give them the special service.

Doesn't the small firm have any

special advantages which it might more fully utilize?

The answer is "Yes." Small size need not be entirely disadvantageous; it can be turned to good use in labor relations as well as in other forms of endeavor. The manager of a small enterprise can enjoy an intimacy with his workers which the bigger firm can hope to approximate only through costly effort. This intimacy can prove an effective barrier to the spread of anti-company agitation.

Degree of autonomy

Unionization need not destroy that relationship, for the workers may continue to exercise a degree of autonomy. "It's the foolish manager," says one labor relations expert at the American Management Association in New York, "who takes as a personal affront an employee decision to unionize, and then looks upon that union as necessarily an antagonistic element. Invite the union organizer in and give him a platform to speak from. It's better than opposing him and presenting him with a platform from which he will be able to denounce you."

Of course, once his shop is organized, the small businessman, regardless of how cooperative he is, may lose that carefully cultivated intimacy for reasons quite beyond his control. For example, he may find himself dealing with

an antagonistic union representative. Or economic misfortune may force him to take unpopular steps that will not be understood. Here, too, a bigger firm has the advantage, or usually it has the funds, experts and publicity organization to explain its actions.

What, then, can the small firm do to overcome handicaps that stem from its size? The history of small business has enough examples to prove its capacity for imagination, and there is no reason why the present challenge cannot summon more of the same. In fact, at least one group of Long Island businessmen is already demonstrating a promising answer to the problem of small business and big labor.

Sixty firms, engaged in a variety of operations but all employing fewer than 50 workers, have formed the South Shore Businessman's Association. Members pay 50 dollars in annual dues which are used principally as a retainer for a professional labor relations expert, Harry H. Rains, Director of Hofstra College's Labor-Management Institute, Hempstead, Long Island. Mr. Rains says he is confident similar groupings of small businessmen will be growing up all over the nation.

In a few instances, union leaders themselves have recognized the special problems their demands are putting on the small business-

man. As one union official puts it: "We've as much interest in keeping the bigger firms from monopolizing everything as the smaller companies have. We ought to help the smaller companies stay in business."

A spokesman for the United Automobile Workers, for example, reports his union will defer certain fringe benefit programs, like the Supplemental Unemployment Benefits Plan in cases where they would work special hardships. An executive of the Amalgamated Clothing Workers of America says that his organization is offering low-interest-bearing loans and free management assistance to small firms.

The great majority of labor leaders, however, either do not share such sentiments, or, if they do, are not ready to translate those sentiments into practice. The president of one large industrial union expresses a typical labor opinion when he asks: "Does the businessman set a special price on his product for the man with 12 kids? Then why should we get involved

in giving one employer something we're not giving another?"

Even those union officials who do attempt to make special provisions say they won't go on doing so on a permanent basis. "We'd like to help the small firm survive if we can," says one, "but we can't stop them from sinking if the trouble is too basic for palliatives to cure." In short, the most a small businessman can expect is a "breather," perhaps even help, but absolutely no permanent immunization from the ever-growing aspirations of labor.

For this reason, stepped-up unionization drives and stronger labor strivings for the better life may claim their share of small business demises in the years ahead. The enterprises that will be less susceptible to this fate are those which are able to maintain excellent relations with their employee force; those which are in lines of activity that put no premium on size; or those which succeed in overcoming such deficiencies through more efficient management techniques. ■

How Small Is Small?

THE Small Business Administration defines "small" business in different ways for different lines: a manufacturing firm employing an average of 250 or fewer employees; retailers with annual sales of one million or less . . . etc. The Federal Reserve developed working definitions based on total assets: manufacturing and mining concerns, commodity dealers, sales finance companies and utilities with assets of less than one million were designated as "small." From a credit standpoint, loans of 38,500 dollars or less have been regarded as loans to "small" business.—*Business Conditions*

E*conomics in A***ction**

**inflation
with a
difference**

The economy has developed a combination of contradictions unlike anything in the past. An inflationary rise in prices has occurred at the same time that important sectors of industry have undergone substantial slumps. Students of economic behavior have an easier time of it when inflation results from an overstraining of production facilities—the more conventional situation. But the present order or disorder of things has led a number of prognosticators off the business graphs onto a blank wall.

is this bad?

Conditions have been so good that here and there they have been bad:

- Employment has been so high and wages have been so good that an inflationary push has developed.
- Plant investment has been so heavy that industry is surprised to find itself with adequate production facilities in a number of areas.
- Home building had been so dynamic that 1957's fall below an annual rate of one million units aroused enough concern to cause an easing of financing terms.
- Inventories had such comfortable margins that the early months of 1957 could see an inventory liquidation at an annual rate of 1.2 billion dollars.

inventories

The inventory figure is an important indication of many things to come. The minus 1.2 billion dollar figure for liquidations contrasts with a plus of 4.1 billion dollars for the annual inventory investment rate during the last quarter of 1956. Business must restock, and the rate of new inventory building will show the strength of the new tide.

**capitalistic
contradiction**

The contradictory nature of current economic events is indicated by the two-way spread of factors that normally fit into a neater pattern. Thus the infla-

tionary burst, accompanied by an emphatic steel price rise, occurred while soft spots were appearing in such key industries as automobile production and home building. The nation's factories were able to produce everything consumers wanted, with industry reporting production at only 81 per cent of plant capacity.

plant capacity

But plant capacity is a very elastic concept, as many firms learned during the 1955 boom. They found their production costs rising sharply as they neared top capacity. Thus the fact that industry today is operating below capacity does not necessarily mean less real efficiency. Planning for plant investment shows a keen awareness of this fact and actual spending should go beyond the whopping figure of 37.4 billion dollars originally forecast for 1957.

air-to-air missile

There is trouble ahead in the aircraft industry because of defense strategy. The shift to missiles and away from piloted aircraft will eventually mean drastic changes. Production will fall from its 5 billion dollar level and employment will shrink from its present 800,000 figure. Present orders, however, mean that the changes will not come for a half year.

tight money

Tight money has held back part of the inflationary pressure. But the fall in bond prices has shown its limitations and the cost-of-living index continues to rise. After dulling its economy blade on the tough-skinned fiscal 1958 budget, the government is looking aghast at the first projections for fiscal 1959, which threaten an even bigger budget. Disposable income is still rising. Wage increases are getting bigger and bigger because of high business levels and automatic rises written into the union contracts of such basic industries as steel and automobiles.

the long range

Business leaders who have been acting optimistic in terms of plant investment are talking optimistic with specific predictions. Most of them expect that

1957 will be a better year than 1956. Real gains, they say, will not be swallowed by inflation, which shows signs of being tamed. Beyond 1957, business expects the bull factors of rising population and increasing productivity to keep things moving.

* * *

**at home
—and abroad**

WASHINGTON—The unfinished business confronting Congress at the end of July was overshadowed by the civil rights debate in the Senate and the disarmament talks in London. As of now, two things seem fairly certain: there *will be* written into law an impressive and workable program for guaranteeing the right to vote; but forceful federal interference beyond court action will not be a part of any civil rights legislation. The President never hoped to get more. Southern opposition, though reluctant, has indicated that it can go along with the right-to-vote objective. Everything else will be opposed. Federal enforcement of desegregation will go by the boards.

**world
opinion**

The civil rights debate and the disarmament talks in London actually are important battlegrounds in the cold war that becomes ever more furious. The administration wants a civil rights bill because the communists for many years have been able to make hay out of their exaggerated stories of racial prejudice and tension in the United States. It is expected that world opinion will be more receptive to our explanations—if practical legal procedures protecting civil rights are written into law.

**British
opinion**

In the meantime, the disarmament drama in London rolls on and on. Again world opinion is being served. No one wants to appear responsible for the breakup of the talks. So the talks will continue until a convenient recess can be called for "further study," or because of preparation for a higher level conference. It is interesting that London and Washington have been at odds on the details of atomic disarmament al-

most as much as have Washington and Moscow. The British see their own atomic armaments aborted by any moratorium that might be declared, thus leaving the U. S. and Russia the only two countries in the world capable of waging an atomic war.

**Soviet
opinion**

Public opinion is coming in for some attention in Moscow as well. If Khrushchev wants to stay on top, he must "explain" what he is doing and "prove" that what he is doing really does make sense. This is something Stalin never had to worry about. Such shocks have a tendency to strengthen Russia for the immediate future, but to weaken the Communist hold on Russia in the long run. Khrushchev has opened the way to changes. Russia is stronger because her people are less likely to break under a master ruler. But the ferment will eventually take its toll of the iron discipline which the Communist party has used to rule Russia. What does this mean to the United States and the Western world? A revolution is not imminent in Russia. Russia as a world power will not be destroyed by the differences among its ruling hierarchy. The shedding of Stalinism is now complete. What comes next no one knows, except that communism in Russia will be quite different from what it was.

**old
campaigners**

The biggest question mark about Russia is the role of the Army. Marshal Zhukov is now a politician as well as a soldier. He has frightening military power in his hands. But he will not stand for any political adventures which might bring down on Russia the military force which he knows is in our hands. Zhukov's rise means that war or peace is a more vividly apparent issue between East and West than ever before. Perhaps this is what President Eisenhower was thinking about when he mentioned the possibility of a Zhukov visit to the U. S. Such talk will be revived at a more politically expedient time. Sooner or later the two old soldiers will have to talk, and it won't be "old times" that they will talk about. ■

American consumption habits are undergoing a continuing revolution as they cope with the steady flow of new products



What Is a Luxury?

by Albert Lauterbach

LAST YEAR I spent a delightful day on a *fundo*, a large country estate in central Chile. The owner's residence was a magnificent mansion in Tudor style, furnished with exquisite furniture and paintings from both hemispheres. The farm laborers, not used to dealing with flush toilets or refrigerators, lived a few hundred yards away in dilapidated, unsanitary shacks. The contrast between luxury and need was inescapable.

In its cost of living surveys for women workers, New York State lists as essential such things as cotton, wool and rayon dresses, orlon sweaters, nylon blouses, plastic rainwear, leather gloves, permanent waves, movies, medical and dental care, sports and vacations,

life insurance and savings, reading materials, lotions, shampoos and lipsticks.

We have here a necessity-luxury gamut that badly strains the dictionary definition of luxury as an "extravagant indulgence" out of the vast majority's reach. Why should New York State regard as necessities many things which the South American laborer not only never uses but has perhaps never heard of? Just what is a luxury?

Americans of average means no longer live in great awe of the luxuries of the rich, despite the gaps in consumption patterns still present. Changing technology has made over many of yesterday's luxuries into today's necessities for an increasing proportion of the population. America has permitted

its inventors, engineers and advertising men to convince us that we must have nylon stockings, frozen juices, DDT, electric ranges and television.

Luxury in respect to leisure has also been thoroughly reinterpreted. Most of the world finds leisure—not to be confounded with apathetic indolence—the greatest luxury of all. Yet our society is concerned with the problem of properly spending the new leisure time that is becoming available with the reduction of working hours. A do-it-yourself movement could not be easily explained to an Indian peasant who must toil incessantly in order to win precarious survival.

Thus, the concept of luxury has undergone physical and psychological change. In the economic sense, the proportion of “surplus” available for discretionary spending has constantly increased. In the psychological sense, the average American’s understanding of what constitutes a necessity has been extended deeply into the old luxury range.

These general trends should not, of course, obscure important individual differences in our evaluation of luxuries. Such differences derive from both the personality of the individual concerned and from the groups with which he identifies himself. Not long ago I

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watched one of my neighbors lovingly wax his 1937 Buick. “I wouldn’t drive any other car,” he said. “You know, I have this year’s model, too, in the garage, and it’s only been out three times.”

“Bought it for investment?” I asked.

“Oh, no—that one is for the neighbors!”

Conspicuous consumption still plays an important role in the American economy. Billions of dollars have been spent on split-level houses, wall-to-wall carpeting, silk suit imports, super-carated diamonds and Caribbean cruises—in order to keep up with the neighbors.

Conspicuous nonconsumption

Of course, the sociologist David Riesman is also right when he speaks of conspicuous nonconsumption. Some people hide their luxuries or display a calculated shabbiness in order to show that they can afford *not* to show off. Luxury may thus become less easily identifiable after the manner of Europe, where the aristocrat is often the person in the well-worn clothes. This is, however, a reaction that is not yet characteristic of general American attitudes.

While luxuries continue to play their role in differentiating individuals and groups, they also have undergone a strong leveling pro-

cess. The suburban and exurban middle classes tend to apportion similar incomes in pretty much the same way for similar houses with similar gadgets and similar cars. They are so thoroughly intimidated by group pressures that a given member will not buy a Cadillac until he is able to rise to a higher social echelon. He would suffer extreme social discomfort, if not ostracism, from the old group as a reaction against its feeling of betrayal.

The expense account is another leveling factor. The necessity for upgrading prestige in business has caused the proliferation of expense accounts among minor executives who are duty-bound to spend conspicuously.

Generates excitement

Some would define a luxury as something that the individual consumer regards as "impractical" or "expensive," compared with his other purchases. Acquiring luxuries often generates excitement and a high intensity of demand in the consumer, with the result that shopping becomes, particularly for women, an emotional experience with accompanying feelings of power. Because the drama rises with the price, the new luxury becomes more attractive as it becomes more expensive, and the usual bargain-hunting philosophy is reversed.

Clearly, a listing of a given good or service as a "luxury" or "necessity" becomes impossible unless we know in detail the personal traits of the consumer concerned. There is no absolute way of telling whether or not vitamin pills, cosmetics, theater tickets, a private room in a hospital, or even jewelry, are luxuries. Perhaps the most puzzling case of all is alcohol, which may represent a luxury, a vice, an emotional necessity, a business custom or a type of social conformity, depending on the individual and the circumstances.

Cultural values as expressed in religion and transmitted by tradition also are important in the definition of what constitutes a luxury. The Pueblo Indians of Southwestern Colorado suffered from chronic malnutrition and yet permitted themselves the "luxury" of keeping sacred turkeys fed from the scanty corn supply. Is it a luxury for Hindus to have sacred cows?

These are practical questions which affect the way of life and aspirations of many underdeveloped nations today. On the one hand, such countries maintain customs that a more materialistic culture would class as luxurious impediments to progress. On the other hand, these "backward" nations often consider interest in material progress itself as a sinful luxury in violation of their hallowed tra-

ditions. Such Spartan attitudes have also been a difficult hurdle for some development plans.

Egalitarian spirit

No such hesitations exist in the American culture. The "acquisitive consumer" on the American scene is as likely to gear his income to his material aspirations as he is likely to do the opposite. Economist Ruth P. Mack feels that this tendency stems from the belief of the early immigrants in the power of an individual to alter his lot, the egalitarian spirit, success stories, the "thing-mindedness" of the American culture, the unusual power of women, the widespread use of consumer goods to establish social rank and the practical results of inventive genius. This kind of culture clears the way for the ready acceptance of innovations whose very newness is their powerful selling point.

Travel, as a kind of search for newness, is a case in point. Trips to Europe and Central America, which only yesterday were considered a luxury, have now become regular practice for many middle-class Americans. For most of them, the real travel problem is no longer money but time, and air-coach traffic is rapidly solving that.

Children have an important influence on the concept of luxury as individuals and as representatives

of a powerful group. Their insistent demands force their own families to convert into a necessity what was regarded as a neighbor's luxury. The child market has become an important aspect of American consumption and production, with the help of skillful advertising. Consider the influence of children on the purchase of television sets, and their subsequent demands for other purchases based on the advertising they see on television.

What kind of innovations and luxuries can we expect in the future? The first possibility is an emphasis on relatively exclusive and expensive types, like the private airplane, the custom-built car and the race horse. The private swimming pool is still in this group, but recent relatively inexpensive construction methods are taking it out of this esoteric luxury class. Indeed, technological progress tends to limit all such luxuries for the few.

The transformation

A much more important development is the transformation of old luxuries for a minority into necessities for the many. These include such articles as clothes from synthetic fibers, nylon stockings, air conditioners, dishwashers and home freezers. Other consumption types which have reached the majority include many former luxury

foods, record players and records, pleasure boats and musical instruments.

But we must still pose the question: does the future belong to the mass markets *only*? Some social reformers like the idea because it means democracy to them, while advertisers like it because it means big sales.

There is, however, another possibility due to the fact that the new necessities have a way of producing variations by parthenogenesis. Thus a second car has become "indispensable" for many families. The suburban home may be supplemented either by a city apartment for occasional use or by a cottage on the seashore. The radio in the kitchen and the bedroom, and the extra television set for the playroom are other examples of this proliferation of former luxuries.

"Social luxuries"

Another development is the emphasis on "social luxuries" like education for everybody and mass recreation. From one point of view, large-scale public expenditures or foundation projects for science or education would be regarded as a social luxury.

In the face of these developments a number of more or less painful questions needs to be asked. Are we spending too much on these new forms of luxury? Can

the economy support such expensive tastes in the long run? Are these rather volatile types of consumption not likely to introduce an element threatening the economic stability? What will be the replacement rate for the durable type of new goods? Is the sky the limit? Can the economy continue to thrive on the assumption that there is no absolute saturation point to our desire for new goods and services no matter how high the prior level of satisfaction?

Hopeful elements

Professor Wesley C. Mitchell wrote back in 1912: "Important as the art of spending is, we have developed less skill in its practice than in the practice of making money." We can still agree with this today, and nevertheless find encouraging signs in the American scene. There are such hopeful elements as the extent of "planned" purchases by consumers of the more expensive items. Regulation of consumer credit could also help maintain stability. Finally, nothing gives evidence of a dulling of the American consumer's appetite, in general, for more.

The major question remains: has the American consumer become the slave of this very profusion of things? We are permitted to hope that the people will not always regard a high level of mass luxuries as the ultimate value. ■

Business Gaming in Executive Suite



by David Felix

A variation on war games helps teach executives how to make decisions

9:00 A. M.—IBM Training Center, New York, N.Y. An American Management Association spokesman opens the briefing session by remarking that the game is not really the thing. It is part of a training program in top-management decision-making and is neither a test nor a preparation for a specific business situation. But this business game is constructed to simulate top-management situations in decision-making. The AMA developed it as a variation of the armed forces war games, with the help of the Rand Corporation and other management experts.

Fifteen executives on the vice-presidential level are formed into five teams, and they are already establishing hearty business friendships. Each team begins with 20 per cent of the market,

equal assets and a similar organization and product. Its objective is to produce and sell the product as efficiently as possible and thus get the greatest return on the investment.

The game is thus an effort to approximate and compress years of business experience into a few hours of play. The players must think in terms of normal business realities. Their decisions will be much like those they make in their executive positions.

The team makes eight decisions affecting price, costs, marketing, research and development, and some of the other factors the leadership of a normal firm must consider. It registers its decisions by encircling alternative figures on a report form at the end of each business "quarter." The decision-

making time for each quarter is about 25 minutes at the start and will be reduced somewhat as the players get used to the game. The game could be played for any number of "years."

10:30 A. M.—Zero Hour and Year. Team V, with two men in their forties and one well-attuned younger man, organizes itself meticulously. It decides to operate as an executive committee without a president unless circumstances demand a change. V decides on a strategy based on medium volume and a moderately high price and prepares to invest rather heavily in market information and research development.

The other teams shake down for action and determine strategy more or less carefully. The two comparatively young members of Team X decide: "Let's cut prices radically while the fogies are piddling around. We can grab off 40 per cent of the market before they know what's happened."

10:55 A. M.—End of First Quarter. Team X is still calculating market possibilities when the AMA people begin calling in the report forms. It must make hasty decisions among the alternative figures.

A rosy-fingered IBM goddess sits down at her mysterious keyboard and transfers the decisions into the machine language of

punch cards. An IBM 650 electronic computer ingests the cards and "thinks" on the basis of a master formula designed according to the normal economic cause-and-effect relationships. Thus, a price reduction or a sizable marketing expenditure would normally result in a bigger share of the market. The formula, however, also takes into account the interplay of the actions of the five firms: an equal price reduction by all five firms would mean a cancellation of the effect. Even so, real life is more complex and careless than the formula's relationships: the formula is the heart of the matter, but it is admittedly an artificial heart.

11:20 A. M.—Beginning of Third Quarter. Team X considers catastrophe so loudly that its members must shush each other for fear of disturbing the other teams and also giving away business secrets. Its share of the market has fallen three percentage points. It decides to cut losses and manipulate other factors as best as its weakened position permits it.

Conversely, Team V is pleasantly surprised to see that its share of the market has risen despite its moderately high price. It pushes on to a high price, invests heavily in marketing and also increases its ambitions from medium to high volume. Considerations of strategy

seem to hide from all teams in a thicket of short-range factors.

3:30 P. M.—Deep into the Third Year.

An AMA man asks the players if they would be willing to continue that evening in order to get in 10 years' play by tomorrow afternoon, more than had been previously forecast. Most of the executives are from out of town and had hoped to enjoy a musical comedy or other Manhattan feature, but all of them accept the call of career duty and agree to an evening session.

A dozen-odd observers, including this writer, ghost about the gaming and graph rooms, violate the sanctity of the business conferences and enjoy uncanny omniscience. A group of mathematicians stays long enough to ascertain that the game, despite its use of recondite formulas, is not essentially mathematical in character.

"It's people," one instructor tells me. "Nothing as simple as roulette, not predictable at all. It's over my head."

9:30 P. M.—Sixth Year. The IBM goddess, still bright as the dawn, alternates between serving the machine and acting as coffee cup bearer to the tired players. She smiles absently on me, but I remember I am a ghost and I get my own coffee. The results of fatigue appear in the total assets, which

continue to rise but at a sharply reduced angle of ascent. *X* is bumping along at the bottom on the share-of-market chart with 13 per cent. Team *V* is well in the lead, both in total assets and share of the market. The total assets of all teams have risen: this is the best of all possible economic worlds; the creators of the game have built optimism into it.

All of the players note the number of necessarily unrealistic elements. A bad marketing program could be a total loss; a merger, impossible in this game, could change everything. But the players accept the AMA explanation: some factors just have to be assumed and others can be built into future games as trials show the needs. All of the players are persuaded of the game's value.

9:00 A. M. (second day). Gaming resumes. The bright young man of *V*, the most successful team at this point, remarks that his ulcers went on playing the game throughout the night and did not let him get any sleep.

A young member of *X* says: "We've got to have some line of action. Let's play follow the leader on the assumption that we are a marginal firm."

The older member of *X* retorts: "Let's not go hog-wild in another direction after what happened." He chooses a moderate R&D figure

and refuses to permit it to be changed, although his two colleagues had decided on a higher one. *X* continues like this, with spasms of one-man resistance overriding democratic rules. Thus, the human element asserts itself despite the statistical elements of the play and scoring—as one psychologist-observer happily tells me. *X* veers about as human emotions react with human reasoning.

11:30 A. M.—Seventh Year. Despite its erratic play, Team *X* passes Team *Z* in terms of share of the market. *Z* is awash in a sea of calculations designed to predict the result of each quarter's play. It is dominated by short-term factors, although all teams pay them disproportionate attention. Indeed, the more successful teams are those that know how to trim strategy by precise responses to quarterly results.

None of the teams know their relative positions because they are not permitted to see the graphs in the next room. But the players can sense their success or failure accurately. By now, moreover, the teams have observed that they are dealing with a market that expands by one per cent every quarter, thus permitting a rise in total assets even for the less successful.

All of the teams have recovered from their evening fatigue and

the total assets line rises more sharply on the graph for all of them.

1:45 P. M.—Ninth Year. An AMA man announces that the game will be called at the end of the ninth year because they were running out of time. The teams hastily trim their strategies to maximize effects in the remaining two quarters. The results:

Share of the Market: *V*, 25 per cent; *Y*, 23; *W*, 20.2; *Z*, 17.5, and *X*, 14 per cent.

Total Assets in Millions (Each team began with 10 million dollars): *V*, \$22; *W*, \$19.5; *Y*, \$17.3; *X*, \$14.9, and *Z*, \$13.8.

Team *V* is clearly the most successful according to the two criteria. But the positions of the other teams are not so clear. *Y* is second in share of the market and third in total assets; the reverse is the case of *W*. *Z* and *X* alternate in fourth and last positions.

2:15 P. M.—Critique. Three AMA men speak gently to the players, emphasizing the fact that there are no real winners or losers. One explains that “cushions” were built into the early part of the game to prevent drastic changes and thus *X*’s price-cutting policy failed. *V*’s spokesman remarks that the victory strategy was very different from the original plan: it went from moderate volume and prices

to high volume and prices. An *X* player complains that the game put a premium on mediocrity but sincerely says the game is "wonderful." The *W* spokesman agrees that the game is wonderful but thinks it is more appropriate for executives a notch or two below the vice-presidential level, where they still have to learn the elements of decision-making.

Note the permissive attitude of the AMA people, but don't let them fool you. They have got the players where they want them—believing in the game—and they can accept minor cavils with grace. Even Team *X*, which tried to import anarchy into the game, is enthusiastic about it. I think *X*'s criticism about mediocrity makes a good point, although the team makes it on a false basis. A price-cutting policy is, after all, rather a simple-minded strategy and certainly has no preordained claim on success.

There seems to have been more talk than thought on strategy. The teams were reacting to short-term factors much more than they realized.

No one assaulted a team-mate or competitor; no one tried to sneak a look into the graph room. There were no Medicis or Morgans playing in that game.

You can't get a perfect simula-

tion of life, and I don't really think anyone wants that. Life is itself much too confusing, contradictory and one-sided. My own feeling is that success depends too much on what the competitors do in the game. But I am willing to concede that most life situations are like that. My objection is—and it's more a matter of taste than sociology—that the game does not permit a given team to dominate a game through really exceptional strategy. The AMA people said they built cushions into the game. Well, we're in the cost-plus and fast write-off era and Rockefeller belongs to prehistory. Or does he?

Intelligent decisions were no guarantee of success in the game. But there is no such guarantee in life itself. Nor can we insist upon a positive relation between success in the game and success in business. Reality is the only real test, and the AMA is right in characterizing the game as an educational exercise.

We can accept the game, and variations of it for special situations, as a useful addition to business training. It's a sign of the increasing sophistication of American business. It requires, in its own nonlethal way, a subtlety that would give Machiavelli a certain pleasure. ■

ONE-THIRD of the average U.S. family budget goes into the three categories of food, liquor and tobacco.

Jean Gottmann

Director, Study of Metropolitan Areas,
Twentieth Century Fund

Megalopolis: The Super City



Q *Dr. Gottmann, you are currently engaged in a study of urban growth along the Atlantic seaboard of the northeastern United States. Indeed, you have coined a new word to describe this region: megalopolis. What is a megalopolis?*

A According to Webster's Dictionary, a megalopolis is a very large city. Actually, the word goes back to the Greek philosophers of antiquity who used it to denote the great world of ideas as opposed to practical politics. An ambitious little Greek town called itself Megalopolis, dreaming of greatness.

Q *What does it mean in the 20th-century United States?*

A Here, I should like to use Megalopolis to describe a particular region which differs from other regions in this country (and in the world) in the size and rhythm of its urbanization. This region extends along the northeastern seaboard of the United States from a little north of Boston to a little south of Washington, or from southern New Hampshire to northern Virginia.

Q *Are you saying that the region between Boston and Washington is just one large city?*

A Well, if you mean by city what it used to mean until very recently, then Megalopolis is very much more than a city. I think the

best way to describe it would be as a *cluster of metropolitan areas* with several downtown nuclei corresponding to the conventional meaning of the word city. A city used to be a built-up area surrounded first by ramparts and later by boulevards—that is, by concentric rings of large arteries. Beyond that the land was greener and less densely occupied. But today there are no longer any clear-cut limits which separate “town” from “country.” Our cities are breaking out of the rather small territories they used to occupy.

Q *Do more people live in this new region, Megalopolis?*

A While a high density of population is, of course, characteristic of this region, it is by no means its most important feature. Actually, Megalopolis has a lesser average density of population per square mile than the teeming rice fields of the Far East. Certainly, these rice fields could not be described as megalopolis.

Q *If population is not crucial, then just what is it that makes Megalopolis a megalopolis?*

A One important characteristic is the density of human concentration at certain times of the day and in certain sections of the area. Thus the density of population in Manhattan on a weekday around noon tends to be very much higher than what the census figures indicate. Every part of Megalopolis, whether a dormitory (i.e. residential) section or a business downtown section, has to be equipped with all the facilities necessary to service the maximum population that it usually expects. And that means an organization of services of a very special kind.

Q *Aren't country suburbs also a characteristic of Megalopolis?*

A Very much so. As the city is breaking out of its former spatial structure, we are making it possible for people to enjoy a semirural mode of life while living during their work hours in an urban manner.

Q *What special problems has Megalopolis created for urban planners and administrators?*

A Perhaps the biggest problem arises out of the *size* of the things that have to be planned. Let me give you an example. At a recent meeting in Philadelphia, I participated in a discussion of this problem. As standards of living rise, more and more people try to get away from

home for a weekend or for just a day out of doors. In Philadelphia they are probably going to the seashore. Under such circumstances, it is not difficult to visualize one-fourth of all the families in Philadelphia going to the seashore on the same weekend. Would we be able to handle that many people? Well, to take care of them by car would require about 80 lanes of speed highways. Today we are *planning* for just eight lanes of speed highways from the city of Philadelphia to the seashore.

The problem of conservation of green spaces

Q *How are we going to keep up with these developments?*

A At times one feels that our planning is still largely in terms of past needs rather than in terms of the needs of the future. Of course, I realize that it is extremely difficult to start building now for the expanded needs of the future with only the financial means of today. This is, indeed, a basic difficulty. Still, I think that it can, to some extent, be overcome if we learn to think more about these problems.

Q *What will happen to the rural areas?*

A A very important problem is the conservation of green spaces which are left within Megalopolis. This requires a great deal of surveying and some money, but most of all it requires a new approach to the problem similar to the national park policies for timber and game preserves. I believe that there is still a great deal to be preserved within Megalopolis and I hope that I will know more about this when this study is completed.

Q *Do you think that what is happening in Megalopolis now will eventually happen in most parts of the industrialized world?*

A I do, and that is one of the reasons why I have undertaken this study of Megalopolis for the Twentieth Century Fund. I am trying to do something slightly different from what is usually done in metropolitan or regional surveys which are generally directed at specific aspects of urban growth, such as industrial location, transportation and housing development.

Q *How will your survey be different?*

A My study will seek to understand better the whole process of growth in Megalopolis which gives rise to some of the problems we

have already discussed. Megalopolis is by far the biggest urban cluster of this kind anywhere in the world. It is also one of the most complicated because of the many large urban nuclei—Boston, New York, Philadelphia, Baltimore and Washington—which exist within it. Now, a study which would attempt to describe the many factors, forces and motives which brought about Megalopolis would help us to understand better what was happening in similar areas elsewhere.

Q *Do we already have similar urban clusters elsewhere in this country?*

A Yes, although on a much smaller scale. Certainly, such urban clusters exist in California. Another such growth is developing on the shores of Lake Michigan around Chicago, extending from Milwaukee to South Bend, Ind. When the St. Lawrence Seaway is opened and communication between the Great Lakes and overseas becomes more direct, this cluster may very well unite with smaller growths around Cleveland and Detroit and become a new megalopolis. In Europe, you already have a rather continuous urban area from Amsterdam to Calais. What we learn about Megalopolis may well help city planners in these growing urban regions to avoid some of the problems which confront Megalopolis.

Civilization has progressed largely through its cities

Q *As more and more of the industrialized world comes to be characterized by large urban communities like Megalopolis, won't our whole attitude towards urbanization have to change?*

A I think so. As you know, there is in this country, and elsewhere in the world, a very abundant literature which describes urbanization as a political, social and, indeed, moral evil. From Thomas Jefferson on, there has been a widespread distrust of the urban mode of life. Now, we know that the growth of enormous urbanized spaces like Megalopolis is here to stay and that it will get bigger. The only way we can manage it is if we accept this situation as a fact of life and try to organize it to the best of our ability.

Q *In other words, you do not believe that this is necessarily a bad trend?*

A Indeed, I do not. Civilization, after all, has progressed largely

through its cities. While Megalopolis has, perhaps, some of the worst slums in this country, it also has the greatest universities and the greatest density of good schools. A dozen libraries here have over a million volumes each. And where does the old Virginian ideal of the gentleman farmer still persist, and on a far wider scale than the 18th-century gentleman farmer ever dreamed of? Certainly not on the vast farming estates of the rural Great Plains region. It exists in the cities which have enabled a growing portion of the population to enjoy a semirural mode of life for at least part of the year. It is not at all visionary to hope that we may one day see the majority of city "cliff dwellers" move out to green areas where they could do some gardening, look at flowers or just sit under the shade of a tree.

A healthy reaction against unthinking conformity

Q *You seem to be a good deal more optimistic than many sociologists who feel that the suburbia so characteristic of Megalopolis will encourage conformity. Do you believe this is so?*

A Well, I am happy to hear so much talk about this subject since the best way of dealing with such possibly harmful consequences is to be aware of them. On the other hand, I am not so sure that you would not have the same trend towards conformity if people had never moved out to the suburbs and had continued to live in city apartments. In a certain sense, many characteristics of suburbia—such as the growth of do-it-yourself activities like gardening—are a very healthy reaction against the sort of unthinking conformity you talk about. After all, the middle-class suburbias some sociologists frown upon have been made possible by shorter working hours and a general rise in incomes and living standards. These suburbs consist of people who have recently moved out of the congested areas of the old cities in search of a richer life which their rising incomes have permitted them to expect. As their tastes become adjusted to their incomes, they will, I believe, seek more individual forms of satisfaction.

Q *And you don't think that Megalopolis will make the urban nuclei within it increasingly indistinguishable from each other?*

A I don't think it will mean anything of the kind. The fact that we

learn to think about Megalopolis will not eliminate the very real and desirable differences between such cities as Boston and Baltimore. Indeed, you will find your biggest contrasts in American society today precisely within Megalopolis.

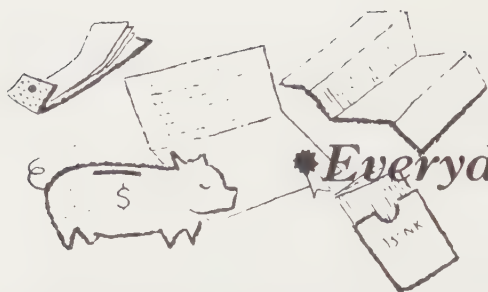
Q But at the same time, you have more and more identity of interests among the large cities.

A That is very true. For one thing, many of the problems of cities within Megalopolis are the same. Let me give you an example. More and more, you are finding that an increasing proportion of the resident population of such towns as New York, Washington and Baltimore is made up of low income groups, while the more wealthy move out to the suburbs. At the same time, the incomes of the cities depend very much upon activities conducted within the core of the cities. Tax, transportation, slum clearance—these are the problems which all cities in Megalopolis have in common. As a result, you have much more communication among these Megalopolis cities than anywhere else. But that does not necessarily mean greater standardization. On the contrary, it often means a greater specialization in ways of life. Cities in Megalopolis are becoming more regionally integrated, but that does not mean that they are becoming more uniform.

Q You appear to be quite optimistic about this trend. Will Megalopolis really mean a new and richer life for most Americans?

A As you have probably gathered by now, I believe in education. Of course, I know that just giving facts and making recommendations do not necessarily lead to measures which will improve our lot. The choice is clearly up to all of us. On the other hand, if we provide people with the intellectual tools for improvement, we shall at least have some idea of the dimensions of the problem, and this should make progress somewhat easier. That is why I think that all the surveys, studies, books and newspaper articles which have been written on this subject during the last six months are all to the good. They awaken people to the problems—as well as the opportunities—of urban growth. And, whether or not I agree with their conclusions, they should all help us to prepare more rationally for the world of tomorrow.

Q Thank you, Dr. Gottmann. ■



★ *Everyday Economics*

THE COST of sending mentally or physically handicapped children to public or private schools is now a deductible medical expense. Allowable deductions include the cost of board and lodging and the costs of ordinary tuition as well as the costs of specialized instruction. There may also be a possibility of refunds on returns as far back as 1954.

Passports to added security



EXAMINE your insurance policies carefully before going abroad. In old life insurance policies, for instance, there are sometimes restrictive clauses, particularly with respect to air travel. If your life insurance policy describes outmoded limitations, you should request a rider waiving these provisions. Check your health insurance policy to ascertain whether it covers medical expenses incurred abroad in countries without socialized medicine. Usually your domestic automobile insurance policy will

not cover driving outside the U.S., but the reputable auto clubs are generally able to provide foreign automobile insurance at reasonable rates. You should also take out sufficient trip insurance to compensate for all possible losses abroad; be careful to specify that coverage is to insure a round trip; note also any restrictions on the coverage where travel is planned to restive parts of the world.

Do you really own it?



IF THE property title is defective, any land or buildings you have bought and paid for may not actually be yours. Defective titles may arise from a number of abuses: fraud or forgery in previous documents of ownership; execution of deeds by those not legally responsible, such as a minor or an incompetent; misuse of trusteeship authority in the transfer of a claim; claims on property by creditors of a former owner; technical noncompliance

with corporation laws in corporate transfers. For your protection, be sure the deed is searched.

Watchful buying



FOR ALL but special-duty watches, 17 jewels are sufficient to provide longer wear of moving parts. The "jewels" in most watches are synthetic, or semiprecious stones, worth from 20 to 25 cents apiece. Use of more than 17 jewels is often just a selling point, nothing more. Make sure, however, that a *jeweled lever* connects the escape wheel to the balance wheel.

"Show" or pay the forfeit



STARTING September 15, all airlines will deduct three dollars from the refund on your plane ticket if you fail to show up without canceling your reservation.

Study and see the world



ABOUT 6,000 students from the U.S. and 70 foreign countries, are awarded educational exchange grants each year. For program information, opportunities, selection of grantees and procedure for U.S. citizens, send 15 cents in coin or check for Catalog No. S 1.67:52, United States Government Print-

ing Office, Washington 25, D.C.

UNESCO recently published the eighth edition of *Study Abroad: International Handbook of Fellowships, Scholarships, Educational Exchange*. 1956-57, a 719-page paperback that lists over 74,000 grants permitting travel and study in almost every country in the world. For convenient purchase, send \$2.00 to Book Department, Science Service, 1719 N Street, N.W., Washington 6, D.C.

Next summer, maybe



FOR residents in most of the 48 states, the Bank of California will finance a swimming pool to the extent of \$3,500 at six per cent for five years. For information on financing, construction, equipment and location of the pool, send 25 cents to Swimquip, Inc., 3301 Gilman Road, El Monte, California.

Lend-lease education



MANY colleges and universities will lend students money for tuition, board and room, for books and miscellaneous needs. The registrar or the school loan officer will provide information about available loans. Repayment time is usually liberal, with little or no interest until a year or more after graduation.—D. H.

Assessing THE ASSESSOR

by Albert W. Noonan

THE New Jersey Supreme Court recently handed down a revolutionary decision on property assessments. It ordered that the law must be obeyed; that real property must be assessed at full value.

The assessed values of real property in the United States are today only a fraction of their market value. They range downward to as little as three per cent of market values, with the majority between 30 and 50 per cent. Yet the law in New Jersey and in all except six states prescribes full value as a tax standard.

The difference between real and assessed values is so great that the New Jersey Court did not demand an immediate application of the full value principle. It set a 1959 deadline. To effect this adjustment will require a tremendous amount of revision in tax calculations by local authorities. Fears of property holders about

great new exactions can be allayed by reducing the tax rate as the tax base is increased. But the Court action forces the use of greater realism in assessment procedures.

Property taxes furnish local governments with 85 per cent of the revenue they get from taxation. These taxes are thus all-important on the local level. But their role—and what they fail to do—has an influence that is marked even on the federal level. Local units get only half their total revenue from taxation. They are dependent on state and federal aid for the other half. In 1956 this aid amounted to 13 billion dollars. It would appear, then, that the erosion of local assessment values has played a role in the transfer of financial responsibility to higher government levels.

What led to the erosion of assessment values? The reduction of tax rates would, in the first place, have been too difficult; but

a downward calculation of the tax base was easy and silent. Local governments found themselves involved in what the real estate world calls "competitive undervaluation."

The pressure downward was intensified by the fact that other advantages and disadvantages were tied to the size of property taxes. Thus the counties in most of the north central and northeastern states apportion taxes among the cities and townships by comparing their assessed values. The greater the assessed valuations of a given city or township government, the bigger is the local unit's share of county taxes. Local assessors are thus forced to keep assessed values down at least as low as those of their neighbors. One town would not be fair to its citizens in insisting on 100 per cent valuations when the county average was half of that.

One effort to correct the situation is the establishment of county boards of equalization. The purpose is to assure an equitable apportionment of the county tax. But the boards have been lamentably ineffective because of their entanglement in issues that cannot be resolved on the county level. They are often dominated by rural representatives infected with

itching suspicions of "big city" people and motives. They have little or no investigative resources to determine what just ratios should be. The result is that many boards fall back on old habits and tend to freeze percentages established in the past. The legal fictions of the township level are thus ratified on the county level. Adjustments are made on the basis of "horse trades" rather than on an economic standard.

The mathematics of the situation makes for other interesting disparities. The movement downward of assessments can be slowed or stopped by tax-rate or borrowing limits. A tax-rate limit of two per cent is common for municipal governments. If they cannot borrow more than a certain amount, they will be forced to keep their assessments high enough to pay their bills. Cities usually have higher assessment ratios than rural townships because they have much greater expenses.

Sometimes the towns are forced to double back on another track when the assessment valuations are too low. If they have no tax-rate limit, they may increase the rate to as much as eight or nine per cent. One fiction is thus partially, at least, canceled out by another.

County equalization boards have thus acted to institutionalize the system of cut-rate assessments.

Albert W. Noonan is Executive Director of the National Association of Assessing Officers.

The same effects are true on another level in other states where the counties, and not the towns, do the actual assessing. There the counties will undervalue property in order to reduce their shares of state taxes. This tendency is strengthened by a negative reason. The counties can demand more state grants-in-aid, particularly for schools, if they can show need. They can thus point to low real estate values as proof of need. States have reacted vis-a-vis county action in the same way the counties reacted in the face of low town assessments; they have set up equalization boards on the state level, with the same negative results.

Homestead exemptions

In those states which have homestead exemptions, the effect of low assessment is to provide for larger exemptions than was the intent of the law, which assumes assessment at full value. For example, suppose a house valued at 8,000 dollars has a 2,000-dollar exemption. If that house is assessed at 25 per cent, then its taxable value drops to 2,000 dollars. With the 2,000-dollar exemption proviso, this means that no tax is paid. Thus, the total exemption of the homesteader is, in effect, 8,000 dollars.

Property taxpayers offer a number of reasons for a continuance of

the low assessments. They can claim that they have made various transactions on the basis of costs and risks as determined by a certain level of valuations. A man who had bought a certain property with the expectation that he would pay a given tax on it would naturally be enraged if the tax went up sharply. Some assessors try to justify low ratios by insisting that the present is not normal and that a depression would cause a drastic drop in values. They would prefer to keep the 1939-1940 period as a base year.

All of these arguments can be easily contradicted. Tax rates can be reduced to offset assessment upgrading, and thus a taxpayer will not necessarily pay a higher tax when his assessment goes up. A possible depression cannot be assumed, and there is no reason why a given semi-depression year should be more normal than contemporary prosperity. But reasonable counter-arguments are easier than action against vocal and well-organized pressure groups.

Local legislatures may take positive action to keep assessments down. Their motives may arise out of the feeling that taxes are too high, or out of political ambition. Taxpayer groups are effective friends and dangerous enemies. The situation, moreover, encourages inertia. Part-time assessors can avoid work and trouble by

copying last year's assessment roll. Such officials often do not have the training to do more than that, in any case.

Reduced assessment values have been used in general to mask a retreat of local governments from power and responsibility. As I have indicated, this withdrawal fits in with a general development toward centralization. The rise of the income tax to all-importance and the sheer quantity of revenue taken by the federal government leave an ever-narrowing tax base for the local governments. The property owner of 1900 had no income tax and looked to the county more often than he looked to the federal government for services.

The intensified industrialization of the country has led to new shifts in tax policy and apportionment. Agriculture produces an appreciably smaller share of the national wealth today. The shift in taxation is thus normally away from the rural and residential and toward the industrial, commercial and urban bases.

Eloquent arguments

The property owner has a number of eloquent arguments deriving from these economic changes. He claims he pays enough taxes as it is, what with income, corporation and excise taxes at their present high levels. He insists that property tax rates have often been

raised to compensate for the reduced tax base. He says that the opposite would be very difficult politically, for if the assessment valuation were raised to the actual property value, he would be afraid that his city or town council would fail to balance that by what he would define as a fair reduction of the tax rate.

There is, nevertheless, a point where the reduction of taxes hurts the individual taxpayer. What property holder is not convinced that his community owes him more services than he receives? But how can his community pay for these services if it is being consistently short-changed? The problem takes on distressing physical expression in the cities, where slums mean a steady destruction of values. Communities have been passing on parts of the problem to federal agencies because they lacked the financial means to handle slum clearance themselves. How much should be done on local initiative and financing?

The assessment problem thus resolves itself into two questions: how can assessments be properly calculated; and how high should property taxes be? It is not within my province to answer the second question, but I can indicate how better assessment procedures would give a better base for local tax calculations.

What is being done and what

can be done to improve the situation? Many of the states make annual studies of assessments and thus publicize the problem. Assessment review on the state level can help, but state authorities recognize that they should attack the grass roots of the situation rather than its results.

One move toward improvements, as carried out by Iowa, raises the assessment district from the town to the county level. This eliminates the need for county equalization boards, although it does permit some of the abuses to continue on the state level by the necessary creation of state equalization boards.

The Iowa change, however, provides for the professionalization of the assessor corps and thus prepares the way for more equitable and realistic assessments. A few years ago the state had 2,500 assessors, most of them part-time. The assessment function was transferred in 1948 to the counties

and to those cities with populations of 10,000 who wanted to do their own assessing. Iowa now has 120 assessors appointed on the basis of merit.

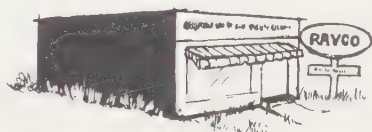
Similar plans are being considered or are actually in practice in South Dakota, North Dakota, Minnesota, Nebraska and Kansas. In many states, local associations of assessors conduct intensive training program designed to produce skilled assessors. Some states have passed laws permitting the appointment of out-of-staters as assessors, an important advance in improving their professional standards.

It must be conceded that good assessment procedures are still a long way off. The growing recognition of the problems is the best promise that something will be done. But the property tax pill is bitter, and we must concede that property owners will insist on sugar-coating for some time to come. ■

Two-house Families

THE U.S. TREND toward becoming a nation of two-house families is said by some to be the result of the gigantic federal interstate highway construction program. The travel time has been reduced between places of work and residence and recreation and leisure. The "season" for resort businesses has lengthened, and it is foreseen that new vacationland areas will be opened up on a year-round basis. Perhaps the automobile is most responsible for the changing patterns of our lives and our communities. Nevertheless, this quickened pace, and "shorter" distances, demands a cautious evaluation of trends. Improved highways are going to increase the current rate of *decentralization* that will require more and more *concentrated* planning (See page 54.)

Franchised—but independent



by Alfred Gross

Once an insignificant element in retailing, the system of independent stores operating under franchises has been spreading widely of late

"How would you like to go into business for yourself? The famous X Company offers you independence—and the backing of a great corporation."

THIS advertisement is not a dishonest come-on. Independence with backing is a neat trick which is being successfully turned throughout the country. It may not be quite the same kind of freedom that your corner grocer has, but the latter variety is too often a franchise to go bankrupt slowly.

The famous X Company is offering a franchise in prosperity. There is a price—beginning with the round sum of perhaps 10,000 dollars. The aspiring independent gets store fixtures, a complete stock of merchandise, a generous amount of expert guidance from an organization that can save him

from the gamut of beginner's mistakes—and affiliation without subordination.

The franchise system is one of the new marketing techniques transforming the structure of retail business. It belongs in the general current of suburban stores, branch department and wayside outlets, farmers' markets, discount houses and supermarkets. It is not, however, so easily recognized because of that chain-store look.

The customer has no physical signs by which to distinguish a franchised independent from a chain operation. How many customers realize they are probably dealing with the boss himself in a Howard Johnson restaurant, Florshheim shoe store, Rayco seat cover store or Carvel ice cream stand?

Why and how did the franchise

system come into existence? The answer lies in the structure of the American economy today, the financial exigencies of business and the recognition of human psychology. The manufacturer or supplier was led to the system by the desire to stabilize the sales and service policies under which his products were retailed. But he did not want to set up a chain sales organization. Like the independent franchise owner whom he was seeking, the supplier wanted to eat his cake and have it, too.

Thus, the supplier wanted a sales organization without the expense of investing in one. He also wanted a first-rate retailer, but knew it was almost impossible to hire one. Able people preferred to go into business for themselves. The supplier couldn't lick the situation; he joined it.

The franchise, sold to an ambitious man who had the capacity to amass the franchise money, was the solution. The supplier had someone, furthermore, who would work *with* him much harder than he would work *for* him.

A "captive" market

Everybody benefits from this arrangement. The supplier has lower sales costs and a "captive" market, with the dealer agreeing to take all or most of his supplies from the supplier. He can standardize operations and develop a reputation for

quality which it is impossible to achieve with ordinary retailers. The central organization can discipline a backsliding dealer and cancel the franchise of anyone who fails to live up to the agreement.

Immediate identification and a quick share of the supplier's good will are the primary benefits of franchise distribution to the dealer. When an ordinary retailer opens up, it takes a long time before he develops a reputation. The franchised dealer has a ready-made name, even if it is not his own. The customers have faith in him until he gives them reasons to the contrary.

The retailer has the professional help that only a big firm can give. Accountants, store architects and other experts, who were out of his reach when he was completely independent, now work for him. The retailer, moreover, has been granted an exclusive territory. If he has joined a successful organization, and if he does his job well, he can expect to enjoy success.

Suppliers thus enjoy most of the advantages of the chain system and avoid a number of its disadvantages. The consumer also benefits from a more effective distribution network. He wants to see products and stores that he knows

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on the basis of past performance, for they save him the inconvenience and waste of excessive experimentation.

Where do you find franchise systems? The variety is wide and growing all the time. In some lines like automobiles the pattern developed many years ago. Books, shoes, drugs and sundries, smoking supplies and haberdasheries have a long history of franchise distribution. In the service field, dancing schools, reducing salons and dry cleaners are often under franchise. Even such specialty products as hearing aids can be successfully sold that way.

Enthusiastic promotion

New organizations gave new impetus to franchising in recent years. They introduced the latest merchandising methods borrowed from various business forms. Rayco built up a big business in automobile seat covers by aggressive sales techniques. Yet auto supplies had long been sold under franchise. Soft drinks, ice cream, hamburgers and light food products are getting enthusiastic promotion by franchised groupings.

The central organization is not content with just launching the dealer. It develops local advertising in cooperation with him. Sales and service employees may be offered training. Meetings and sales clinics are held in order to keep

the dealers acting as an expert team.

There are, of course, disadvantages and problems in the franchise system, too. A dealer who loses his franchise is in a bad position. He must try to get another franchise, perhaps in a line in which he has no experience, or become a true independent with all the difficulties of starting from scratch.

Many dealers complain that they overpay for much of the merchandise they get from their suppliers. They say that the supplier's favored position results in smaller margins and lower net profits for the dealer. Franchise holders often do not appreciate the fact that the parent company must finance the many services they receive. But the situation can make for unhealthy suspicions and frictions.

Another complaint stems from the right of the central organization to open new outlets. An older dealer may feel that the newly franchised retailer is cutting unfairly into his territory.

But the supplier can also register criticisms against the dealer. The parent firm's reputation is no better than that of the retailer, who is his ambassador in a given area. A dealer can decline into an excessively dependent status, demanding services he should perform himself. He may forget that it is his function to put over the

sales in his territory. It is hard to cut off a dealer who has failed to keep his business going. The supplier is bound much more closely to him than he would be to an ordinary retailer, and a franchise cancellation can result in expensive litigation.

A franchise operation often leads the supplier to broaden his lines beyond those he would normally carry. This entails increased investments in inventory, warehousing and personnel. The supplier could find himself overextended in fields where his operation is uneconomic.

But the popularity of the franchise system among potential dealers can be shown in the candy field. Conventional candy chains are deluged with requests for franchises. Not organized for the new operation, they have been forced to prepare a form letter rejecting the unwanted attentions. They may, however, discover that they could do better if they were to change over, partially at least, to the new method.

Whether he recognizes the fran-

chised dealer or not, the consumer often tends to favor him over the independent store proprietor. The modern American likes modern merchandising methods. He is, moreover, much more mobile than his father, ready to accept the distant calls of job opportunity. When he does arrive in a new section of the country, the consumer is happy to continue his purchases from a firm he knew in his old home.

The total franchise picture looks increasingly healthy and the supplier-dealer relationship is being refined. Surviving independent retailers are feeling more intense competition from the various integrated groups. Their best defense lies in joining some such group. Independent suppliers will want more control over retail outlets as they increase their advertising and promotional activities. Without a franchise system the suppliers will not be able to establish the necessary control. The interaction of the developments in supplier and dealer situations promises to accelerate the growth of franchise groupings in the future. ■

Answers to Challenge Quiz

- | | |
|----------------------------------|-----------------------------------|
| (1) False (<i>see page 23</i>) | (7) False (<i>see page 67</i>) |
| (2) True (<i>see page 54</i>) | (8) True (<i>see page 49</i>) |
| (3) True (<i>see page 8</i>) | (9) False (<i>see page 13</i>) |
| (4) True (<i>see page 44</i>) | (10) False (<i>see page 73</i>) |
| (5) False (<i>see page 36</i>) | (11) False (<i>see page 71</i>) |
| (6) False (<i>see page 27</i>) | (12) True (<i>see page 62</i>) |

FESTIVAL FEVER



The quest for culture has made music, art and historical festivals a big business

by Hy Hollinger

SALZBURG is an architectural masterpiece where the medieval and baroque graciously adjust to everything in the 20th century except outsized American automobiles. During the summer its narrow streets fill with vehicles, humans and a static electricity known as festival atmosphere. The attraction that brings thousands of visitors to this Austrian provincial capital is a series of musical events ranging from grand opera to harpsichord recitals.

Salzburg, where Mozart is the immanent spirit, although other composers are played, competes with the German Bayreuth, mono-

theistic temple to Richard Wagner. These two festivals today have a world-wide competition that includes 1,200 American and 600 European events that are called festivals by their sponsors. The festival business is booming, and every postwar year has seen hundreds of new events.

The dictionary defines "festival" as a time of feasting or celebration, and the original festivals were local events with religious connotations. Passion plays, for example, have required intense participation rather than the passive appreciation of an audience. But the result attracted visitors, and the visitors brought money. The profit element was recognized, and festivals have become a business, although the superior ones continue to provide splendid cultural value for the money charged.

The Berkshire Music Festival at Tanglewood, Mass., was founded in 1938 by Serge Koussevitzky after the example of the European music *Feste*. Its success called the Empire State Music Festival into life at Ellenville, N.Y. But the United States was not content to rest with classicism. Newport, R.I., doing violence to a dowager past, now attracts exogenic aficionados with its annual Jazz Festival.

Music is certainly not the only

Hy Hollinger is a member of the staff of *Variety*, weekly trade paper of the entertainment world.

festival theme. The profane theater has succeeded the sacred, and while Athens produces its incomparable Greek dramas in an ancient but not quite original amphitheater, two Stratfords of the Western Hemisphere, the Ontario and Connecticut towns, hold Shakespearean festivals. There is, in this case, a great deal in a name like Shakespeare's Stratford-on-Avon.

Other arts also get their due. The dance is celebrated in classical ballet as well as modern version at Jacob's Pillow, Mass. Greenwich Village holds an outdoor art festival open to the most casual passerby. The Boston Arts Festival produces a series of events in drama, music and art.

Boston's activity indicates the vigor with which the major cities have joined the festival movement. New York, Paris, Rome, Edinburgh, Vienna and most other world centers have added festivals to their varied attractions. New York tempts visitors to brave the seasonal heat with the Summer Festival, a program with less weighty cultural aspects.

Some festivals are designed more for general publicity and commercial contacts than for the delectation of on-the-spot specta-

tors. When the Japanese motion picture industry staged a Japanese Film Festival in New York last winter, it was trying to make the American public—and film distributors—aware of its offerings. The Cannes Film Festival seeks worldwide publicity with its awards for best films and performances.

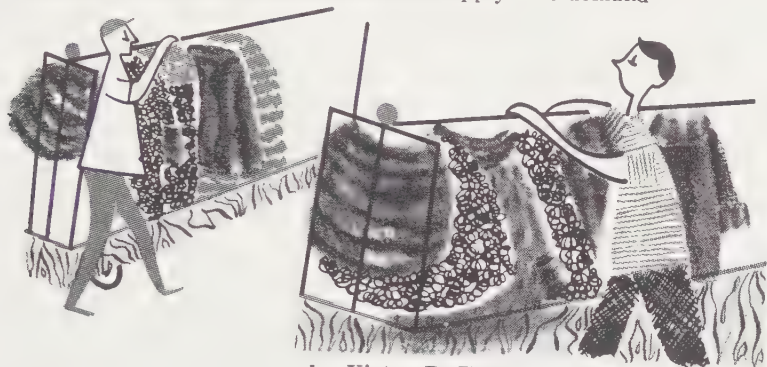
The United States has reached an age when the centennial celebration has become a major activity. More than three dozen communities in 14 states are marking their 100th anniversary celebrations this year. Features include pageants, historical plays, parades and reconstructions of old buildings and sections.

Jamestown, Va., is marking its proud 350th anniversary against a backdrop of elaborate reconstructions and exhibits. Plymouth, Mass., rebuilt the original Pilgrim settlement and tied in a celebration with the arrival of a replica of the *Mayflower* from England.

The new leisure is giving Americans more time to devote to culture, and their broadened educational experiences have given them greater appetites for it. With prosperity paying the bill, 170 million Americans are showing an ever-increasing desire to join in festive expressions of culture. ■

BEMOANS A NEIGHBOR: About the time a man and wife can afford to go out evenings, they can't leave the grandchildren alone.

A 19th-century economist would be delighted at the way the American fur industry obeys the classical laws of supply and demand



by Victor R. Fuchs

Where the Fur Still Flies

THE fur industry is one of the few remaining industries which closely resemble the competitive model of economics textbooks: many firms, easy entry, owner-management, prices determined by unconfined demand and supply, and unabashed higgling and haggling. Just as anthropologists study primitive societies, we may learn much about what business was like in the earlier days of the Industrial Revolution by examining this old and glamorous trade. We shall also discover that competition can have a tremendous influence on an industry as it fights for survival in a less competitive economy.

Retail fur sales in the U. S. in recent years have averaged about 275 million dollars annually. The journey of a fur pelt from the

animal's back to milady's is long and involved. There are the farmers and trappers who produce the raw fur skin, the dealers, brokers and auction companies who market it, the processors who convert the stiff, greasy, often ugly raw skin into a soft, pliable, beautiful fur pelt, the manufacturers who produce the fur garment, and retailers who sell it.

The farmers through their marketing cooperatives and the processors and auction companies have succeeded in curtailing competition to some extent. Just as in most industries, however, it is the manufacturers who set the dominant tone for the industry, and in this instance the tone is one of intense, individualistic and atomistic competition.

There are about two thousand

fur manufacturers in the United States, and approximately 90 per cent of them are crowded into an area of 10 square blocks in downtown Manhattan. This gregariousness may be attributed to the manufacturer's desire to be near the raw fur market, skilled labor and buyers. About 10,000 workers are employed, or an average of five per firm. A large firm is one that employs more than 20 men (only about 60 firms can boast of such a size) and the few "giants" are those with more than 50 employees.

The geographical concentration gives added emphasis to the intense competition which pervades the industry. The manufacturers compete with one another for raw material and labor, as well as sales. Moreover, the competition is always based on one factor—price.

"Up, up, up!"

Step into a mink auction where two million dollars' worth of pelts will be sold in one day in bundles of 30 or 40 skins at a time, and you will see hundreds of buyers crowded into the auction room, bidding fiercely against one another for each bundle. The auctioneer shouts "up, up, up," and if the price does not go high enough, the bundle is withdrawn, to be offered at some other time.

Watch the manufacturers go into the street and pirate labor away

from one another when demand strengthens, or observe the worker go into business for himself as soon as he has accumulated five thousand dollars. Finally, imagine the plight of the manufacturer in the showroom as the department store buyer bargains for the lowest price, and they both know there are 50 other firms in the same building offering substantially the same merchandise.

As might be expected, the mortality rate is extremely high. Last year, bankruptcies in the fur trade resulted in losses totalling 10 million dollars. There has also been widespread unemployment in recent years as the volume of production declined almost 50 per cent from the postwar high.

Modern American industry is famous for its research and its advertising, but we find hardly a trace of these two main props of the "new competition" in fur manufacturing. Fur garments are made today much the same way they were a generation ago. One man cuts the skins and arranges them to cover the pattern; another sews them together; and a third finishes the garment with lining, buttons and pockets. Only the simplest tools are employed: knife,

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sewing machine and hand needle. But great skill is required in their use. Average earnings are well over three dollars an hour, and some highly skilled workers earn more than 200 dollars for a 35-hour week. Employment, however, is highly seasonal.

Fur is one of the few durable consumer goods marketed without any manufacturer identification. There are virtually no manufacturer brand names, no consumer advertising by manufacturers and no manufacturers' guarantees. The fact that manufacturers have no control over retailers is of vital importance in an economy in which producer brand names are becoming increasingly important.

Stress price appeal

Partly because the manufacturers have not given them anything else to talk about, and partly because they are, themselves, so highly competitive, fur retailers stress price competition to the exclusion of other appeals. Prices are always "cheaper than before" and "cheaper than they will be." The advertiser's prices are always "30 per cent below competitors," or "below wholesale cost." An analysis of fur advertisements in New York City newspapers revealed that almost 75 per cent stressed the price appeal.

Moreover, many stores do not follow a one-price policy with re-

spect to fur. Excessive initial markups are used in order to facilitate concessions and markdowns. "Special purchases" are rarely special, and, in recent years, are often not even purchases but goods shipped on consignment by distressed manufacturers. Until the passage of the Fur Labeling Act, furs were often sold under a variety of misleading and fictitious names. Such practices are not universal by any means; many stores attempt to give fine quality, value and service, but there have been enough rotten apples so that the reputation and sales of the entire industry have suffered.

During the postwar period the highly competitive structure of the fur industry has sharply limited its ability to compete with other industries for the consumer's discretionary spending. Retail fur sales have fallen 40 per cent during a period when disposable income and the sales of most consumer goods have more than doubled. While other industries have been actively engaged in market research, product improvement, mechanization, lobbying, advertising, and all forms of sales promotion, the fur manufacturers have been individually too small to undertake such efforts, and collectively too competitive to organize themselves on an industry-wide basis.

There have been several at-

tempts at industry-wide promotion, but each one has foundered on the rock of finance. If the program is based on voluntary contributions, the sum raised is insignificant; on the other hand, when some form of compulsory levy is suggested, such as a charge on each pelt at the point of processing, the program runs afoul of the antitrust laws.

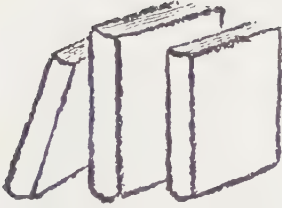
Atomistic structure

Why has the fur industry retained this atomistic structure? The answer may be found in the economist's concept of economies of scale. In most manufacturing operations, a large firm has an advantage over a small firm in the very process of production apart from advertising and related matters. By substituting machinery for labor, standardizing the product and producing on a mass basis, lower costs are realized. Since fur manufacturing is essentially a handcraft, the large firm does not have lower costs, and, in fact, has higher costs because the need for supervisory personnel grows at an increasing rate. This basic condition has been further aggravated by the presence in the industry of a strong and militant union. The union has been successful in forcing high wage rates, fringe benefits and rigid working rules on the well-established larger firms.

We do not know whether the

consumer benefits more from intense, old-fashioned competition than from the newer variety. What is clear, however, is that in a growing, changing, wealthy economy, the highly competitive industry is at a tremendous disadvantage compared with its less competitive neighbors.

Are economists wrong to preach the virtues of competition and the dangers of big business? At first glance it might seem so. But there are some other factors which should be considered. First, because of the ease of entry, the fur industry still redeems America's promise as the land of opportunity. Connections, schooling and social standing count for little. The important thing is what one can do, and how well one can do it. In such an industry a man with little capital but much ambition and ability can still, by his own efforts, build a profitable business in a very few years. Second, we may note that many of the wasteful activities of the less competitive industries are also missing. Excessive advertising expenditures, fancy offices, padded payrolls and monopoly profits are not to be found. Finally, where there is intense competition, there is no opportunity for concentration of power, and no need for a super-powerful government to oppose the exercise of private power, actual or potential. ■



READING REPORT



Farm Trouble. Lauren Soth. 221 pp. Princeton, N. J.: Princeton University Press. \$3.75.

• Lauren Soth is editor of the editorial pages of the *Des Moines Register* and author of the Pulitzer Prize-winning editorials which proposed the exchange of Soviet and American farm delegations. *Farm Trouble* deals with such aspects of the agricultural puzzle as surpluses and uncertainty of income levels. The fact that "too many people still depend on farming for a living" is presented as the key social problem.

* * *

The Crack in the Picture Window. John Keats. Illustrated by Don Kindler. 196 pp. Boston: Houghton Mifflin Company. \$3.00.

• This fictional case history describes the misadventures of John and Mary Drone, victims of their own stupidity, greedy builders and loan sharks. They are the awful examples of housing development dwellers with lifetime mortgages, who live on credit, save not a cent, and spend their leisure time keeping up with the latest fads and the Joneses. The author quotes eminent authorities in social work, community planning, sociology, psychiatry, architecture and real estate finance. But the Drones are fortunately not typical. *The Crack in the Picture Window*

gives only a badly refracted view of the serious problems that housing developments make.

* * *

The A. F. of L. in the Time of Gompers. Philip Taft. 508 pp. New York: Harper & Brothers. \$6.75.

• This is an exhaustive historical study which traces the origin and development of AFL policies and programs. Professor Taft examines in scholarly detail the classic struggles out of which the principles of today's unionism evolved. He brings to his discussion of many classic union issues the benefit of extensive research among a considerable amount of unpublished source material. The book is an important contribution to our understanding of the Federation's role in establishing a union-industry-government relationship commensurate with the complexities of 20th-century society.

* * *

The Interplay of East and West: Points of Conflict and Cooperation. Barbara Ward. 152 pp. New York: W. W. Norton & Company, Inc. \$3.50.

• No problem is more urgent these days than that of making good on the idealistic catch phrase "one world." And to this reader's knowledge no one has succeeded so well as Barbara Ward does here in illuminating the

broad aspects of that problem and indicating the general direction of its solution. Originally presented as lectures at McGill University, the three parts of this volume discuss respectively the historical background of the East-West problem, the political and economic factors, and opportunities for solution. Despite its brevity, the book is rich in detail and provides a brilliantly organized summary of the main issues and obstacles involved in the task of bringing East and West together.

* * *

Thinking by Machine. Pierre de Latil. 353 pp. Boston: Houghton Mifflin Company. \$5.50.

•Cybernetics, the science and practice of automation, is presented to the lay reader. The French author makes the observation that the normal American-European relationship is reversed in the case of cybernetics. It was, he says, the Americans, under the leadership of MIT's Prof. Norbert Wiener, who formulated the principle but the Europeans who accomplished most of the technological development. M. de Latil gives fascinating illustrations of the way machines acquire brain power: engineers and biologists unite to construct machines that ape certain operations of the nervous systems of living beings.

* * *

The Politics of Industry. Walton Hamilton. 169 pp. New York: Alfred A. Knopf. \$3.50.

•Mr. Hamilton is a distinguished lawyer who writes about our industrial institutions with a very lawyer-like irreverence and wit. In this book (which actually consists of five lectures first delivered at the University of Michigan two years ago),

he takes a long and rather sour look at the actual distribution of power in modern industrial society. There is, he notes, a vast difference between the formal legal rationalizations governing the relations of business and government and the practical consequences of such rationalizations. To illustrate this point, Mr. Hamilton examines such matters as the patent laws, price fixing by administrative agencies, corporate power and the state, etc. He concludes that, while both business and government make obeisance to free competition and laissez faire, the modern corporation is coming more and more to resemble government administrative agencies with respect to both power and functions. While a good deal of what Mr. Hamilton has to say is true, some readers may feel that he is altogether too happy with this particular situation.

* * *

Big Business and the Policy of Competition. Corwin D. Edwards. 180 pp. Cleveland: The Western University Press. No price.

•The author, a University of Chicago professor with extensive government experience, trains a fine pragmatic suspicion on monopolistic and oligopolistic practices. This collection of lectures delivered in Cleveland in 1955 warns against mergers of all kinds but places special emphasis on the horizontal kind. Prof. Edwards documents numerous cases of big business sins, advocates a "selective surveillance" over price policies but concedes the dynamic element in the American economy that tends to destroy monopoly conditions. He fails to explain how a country with the world's biggest businesses could have, in comparison to wages, the lowest prices. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 70.

- | | |
|---|--|
| <p>(1) Defense spending has encouraged most private industry to expand.
True ☐ False ☐</p> <p>(2) "Megalopolis" cannot be defined in terms of population.
True ☐ False ☐</p> <p>(3) The EEC Treaty could result in a unified system of higher social benefits for Europe.
True ☐ False ☐</p> <p>(4) The word "luxurious" is rapidly losing its connotation of "select."
True ☐ False ☐</p> <p>(5) Small business can hardly hope to cope with the potential demands of highly organized unions.
True ☐ False ☐</p> <p>(6) The greatest hindrance to the development of nuclear reactors is the lack of semi-skilled labor.
True ☐ False ☐</p> | <p>(7) The franchised dealer is wholly independent to create his own promotion and retailing policies.
True ☐ False ☐</p> <p>(8) Business games, patterned after the military war games, were not devised to test junior executives for their eligibility for promotion.
True ☐ False ☐</p> <p>(9) The fundamental laws of the social sciences are now fully established.
True ☐ False ☐</p> <p>(10) Industries producing high-priced luxury items are always the first to develop a thoroughly organized system of practices.
True ☐ False ☐</p> <p>(11) Festivals first began for the purpose of providing aesthetic entertainment and cultural enlightenment.
True ☐ False ☐</p> <p>(12) The assessed values of real property today are not in line with their market value.
True ☐ False ☐</p> |
|---|--|



Dept. of Better Mousetraps



From The World of Industry: A combination envelope-stuffer-stamping machine that collates, folds, inserts up to four enclosures, processes up to 6,000 envelopes an hour . . . A 5½-lb. portable blueprint machine that reproduces any drawing or written material up to 8½ x 14 in. in less than 1.5 min. . . . An electronic device that gives an "iron lung" patient breathing control; it picks up the natural impulses of the respiratory muscles, amplifies the electrical signals and converts them to instructions for the respirator.

* * *



Car and Traveler: An all-portable phonograph (13 x 11 x 5 in.) that operates on a 6-v. battery and plays 33, 45 and 78 rpm records . . . A combination key-case and tire pressure gauge . . . A combination fuel pressure regulator and filter that stops stalling, flooding and rough idling; it assures the best fuel mixture under any load, at all speeds, at any altitude, in all weather . . . Amber contact lenses that convert regular headlights instantly to fog lights.

* * *

Throughout the House: Rubber concrete for mending cracks in walls, walks, etc.; it goes on as easily as modeling clay and dries to long-lasting, water-proof concrete . . . A can open-

er that punches out a pouring spout on any size can . . . The first single-unit, oil-fired air conditioner that cools in summer, heats in winter; it may be installed in less than one hour if the home is heated by forced warm air . . . An oxidizer filter that removes iron deposits from water and prevents discolored laundry . . . A non-staining, slip-proof application for showers and tubs . . . An aluminum trellis that doubles as a TV antenna.

* * *

Easy Aces: Miniature light bulbs that require no electricity, no wiring and recharge from artificial or sunlight . . . A clothes dryer with automatic de-wrinkler that eliminates pressing synthetic fabrics . . . A shock-proof AC/DC immersion heater that boils water in seconds.

* * *

Children's Corner: A rust-proof pocket telescope (6-power mag.) that looks like a fountain pen and extends to 9 in. . . . A chrome-plated, tubular steel clothes rack that hangs from the regular closet rod and adjusts to the child's reach . . . A "life-guard" device that quickly sounds an alarm if and when anyone falls into the swimming pool.

* * *

Write to CHALLENGE Magazine for additional information. ■





Challenge

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Haig Babian, Editor

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Plague on the Plains; the current drought in the High Plains is one of the greatest natural and economic disasters we have ever faced. Barrow Lyons. Apr '57, p. 30-34.

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Feeding Our Expanded Population; farmers and food processors will adapt their marketing methods to changes in living patterns. James C. Drury. Feb '57, p. 13-17.

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Housing: a Problem That Demands Action; unless we take positive steps fast, all signs point to overcrowding, inflated values, growing segregation and indifference to community life. Richard Lee, Jr. Oct '56, p. 18-22.

How the Money Will Be Spent; consumer outlays will increase in education, transportation, utilities and entertainment. Victor Lebow. Apr '57, p. 23-27.

Improved Control Over Disease; medical research in 1975 will have as many challenges as it does today. James A. Shannon, M.D. May '57, p. 18-22.

Leisure as a "Legitimate" Activity; as we find and make more spare time, leisure should become as valued an activity as work. Leonard Reissman. Nov '56, p. 18-22.

Production—Key to Rising Income; by 1975 the requirements of a growing economy can use a supply of goods and services double the present level. Gerhard Colm. Apr '57, p. 18-22.

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The Cost of Medical Progress; continued advances will add to the cost of clinical and public health programs. Edwin L. Crosby, M.D. May '57, p. 23-27.

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The Summation; assessing the predictions and assaying the problems. Martin Kessler. Aug-Sep '57, p. 18-22.

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likely to be diminished by the future's electronic gadgets. John Tebbel. Jun-Jul '57, p. 18-22.

Upheaval in Local Tax Patterns; we can anticipate the most striking revenue changes in the next decade. Mabel Walker. Mar '57, p. 23-27.

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Another Giant in the Making?; right now young Howard Garfinkle rides the flood tide of real estate opportunities. Michael Roberts. Nov '56, p. 23-26.

Behind the Printed Word; the ancient craft of printing has evolved, into a ten-billion-dollar-a-year industry. Peter B. B. Andrews. Nov '56, p. 45-48.

Billion-Dollar Joyland; parents on a Christmas buying spree will cram the stockings of 48 million children with dolls and toys. Melvin Fiske. Dec '56, p. 41-43.

Business Gaming in Executive Suite; a variation of war games helps teach executives how to make decisions. David Felix. Aug-Sep '57, p. 49-53.

Does Industry Manufacture Executives?; because "born executives" are rare, business must conduct management development programs, often geared to mock standards. Stanley H. Brown. May '57, p. 60-63.

Do Mergers Kill Competition?; the present merger movement is not lessening competition. Ralph L. Nelson. Dec '56, p. 48-52.

Fashion; what is it, where does it begin, where does it end? Beatrice Judelle. Jan '57, p. 61-64.

Franchised—but Independent; once an insignificant retailing system, independent stores operating under franchises have been spreading widely of late. Alfred Gross. Aug-Sep '57, p. 67-70.

Hits, Runs and Dollars; will organized baseball be shut out by Con-

gress and the Supreme Court? Murray Polner. May '57, p. 36-39. Housing's Blueprint for Growth; home-builders have substituted 20th-century techniques for 18th-century handicraft methods. Robinson Newcomb. Apr '57, p. 8-12.

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A New Elite in Russia; power shifts in the Soviet Union have given industrial managers added prestige and authority. Arthur S. Barron. Nov '56, p. 36-40.

Economy-by-Index; Finland is a classic example of what can happen when all wages are officially pegged to a cost-of-living index. Mitchell Gordon. Jun-Jul '57 p. 28-31.

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Is Saving Old-Fashioned?; in spite of inflation, retirement plans and installment buying, the desire to save remains almost universal among American families. George Katona. Feb '57, p. 56-60.

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Breakdown in Our Public School System?; yes—unless we collect sufficient funds through the most effective channels of taxation. Haig Babian. Oct '56, p. 8-12.

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reliance on trade-marks and brand names has led businessmen to devote much attention to publicizing and protecting their brands. Beatrice Judelle. Nov '56, p. 27-30.

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